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107TH CONGRESS
1ST SESSION

H. R. 2108

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage the production and use of efficient energy sources, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 7, 2001

Mr. MATSUI (for himself, Mr. BECERRA, Mr. POMEROY, Mr. CONDIT, Mr. SAWYER, Mr. THOMPSON of California, Mrs. CAPPS, Ms. LOFGREN, Mr. BENTSEN, Mr. CROWLEY, Mr. KANJORSKI, and Ms. JACKSON-LEE of Texas) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the Internal Revenue Code of 1986 to provide tax incentives to encourage the production and use of efficient energy sources, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the ''Energy Security and Tax Incentive Policy Act of 2001''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amend-

ment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

TITLE I—ENERGY-EFFICIENT PROPERTY USED IN BUSINESS

SEC. 101. CREDIT FOR CERTAIN ENERGY-EFFICIENT PROPERTY USED IN BUSINESS.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit) is amended by inserting after section 48 the following:

"SEC. 48A. ENERGY CREDIT.

"(a) IN GENERAL.—For purposes of section 46, the energy credit for any taxable year is the energy percentage of the basis of each energy property placed in service during such taxable year.

"(b) ENERGY PERCENTAGE.—

"(1) IN GENERAL.—The energy percentage is—

"(A) except as otherwise provided in this subparagraph, 10 percent,

"(B) in the case of energy property described in clauses (i), (iii), and (vi) of subsection (c)(1)(A), 20 percent,

"(C) in the case of energy property described in subsection (c)(1)(A)(v), 15 percent,

''(D) in the case of energy property described in subsection (c)(1)(A)(ii) relating to a high risk geothermal well, 20 percent, and

''(E) in the case of energy property described in subsection (c)(1)(A)(vii), 30 percent.

''(2) COORDINATION WITH REHABILITATION.—The energy percentage shall not apply to that portion of the basis of any property which is attributable to qualified rehabilitation expenditures.

''(c) ENERGY PROPERTY DEFINED.—

''(1) IN GENERAL.—For purposes of this subpart, the term 'energy property' means any property—

''(A) which is—

''(i) solar energy property,

''(ii) geothermal energy property,

''(iii) energy-efficient building property other than property described in clauses (iii)(I) and (v)(I) of subsection (d)(3)(A),

''(iv) combined heat and power system property,

''(v) low core loss distribution transformer property,

"(vi) qualified anaerobic digester property, or

"(vii) qualified wind energy systems equipment property,

"(B)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

"(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer.

"(C) which can reasonably be expected to remain in operation for at least 5 years,

"(D) with respect to which depreciation (or amortization in lieu of depreciation) is allowable, and

"(E) which meets the performance and quality standards (if any) which—

"(i) have been prescribed by the Secretary by regulations (after consultation with the Secretary of Energy), and

"(ii) are in effect at the time of the acquisition of the property.

"(2) EXCEPTIONS.—

"(A) PUBLIC UTILITY PROPERTY.—Such term shall not include any property which is

public utility property (as defined in section 46(f)(5) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), except for property described in paragraph (1)(A)(iv).

''(B) CERTAIN WIND EQUIPMENT.—Such term shall not include equipment described in paragraph (1)(A)(vii) which is taken into account for purposes of section 45 for the taxable year.

''(d) DEFINITIONS RELATING TO TYPES OF ENERGY PROPERTY.—For purposes of this section—

''(1) SOLAR ENERGY PROPERTY.—

''(A) IN GENERAL.—The term 'solar energy property' means equipment which uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat.

''(B) SWIMMING POOLS, ETC. USED AS STORAGE MEDIUM.—The term 'solar energy property' shall not include property with respect to which expenditures are properly allocable to a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage.

''(C) SOLAR PANELS.—No solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as solar energy property solely because it constitutes a structural component of the structure on which it is installed.

''(2) GEOTHERMAL ENERGY PROPERTY.—

''(A) IN GENERAL.—The term 'geothermal energy property' means equipment used to produce, distribute, or use energy derived from a geothermal deposit (within the meaning of section 613(e)(2)), but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage.

''(B) HIGH RISK GEOTHERMAL WELL.—The term 'high risk geothermal well' means a geothermal deposit (within the meaning of section 613(e)(2)) which requires high risk drilling techniques. Such deposit may not be located in a State or national park or in an area in which the relevant State park authority or the National Park Service determines the development of such a deposit will negatively impact on a State or national park.

''(3) ENERGY-EFFICIENT BUILDING PROPERTY.—

''(A) IN GENERAL.—The term 'energy-efficient building property' means—

''(i) a fuel cell which—

''(I) generates electricity using an electrochemical process,

''(II) has an electricity-only generation efficiency greater than 30 percent, and

''(III) has a minimum generating capacity of 2 kilowatts,

''(ii) an electric heat pump hot water heater which yields an energy factor of 1.7 or greater under test procedures prescribed by the Secretary of Energy,

''(iii)(I) an electric heat pump which has a heating system performance factor (HSPF) of at least 8.5 but less than 9 and a cooling seasonal energy efficiency ratio (SEER) of at least 13.5 but less than 15,

''(II) an electric heat pump which has a heating system performance factor (HSPF) of 9 or greater and a cooling sea-

sonal energy efficiency ratio (SEER) of 15 or greater,

''(iv) a natural gas heat pump which has a coefficient of performance of not less than 1.25 for heating and not less than 0.70 for cooling,

''(v)(I) a central air conditioner which has a cooling seasonal energy efficiency ratio (SEER) of at least 13.5 but less than 15,

''(II) a central air conditioner which has a cooling seasonal energy efficiency ratio (SEER) of 15 or greater,

''(vi) an advanced natural gas water heater which—

''(I) increases steady state efficiency and reduces standby and vent losses, and

''(II) has an energy factor of at least 0.65,

''(vii) an advanced natural gas furnace which achieves a 90 percent AFUE and rated for seasonal electricity use of less than 300 kWh per year, and

''(viii) natural gas cooling equipment which meets all applicable standards of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and which—

''(I) has a coefficient of performance of not less than .60, or

''(II) uses desiccant technology and has an efficiency rating of not less than 50 percent.

''(B) LIMITATIONS.—The credit under subsection (a) for the taxable year may not exceed—

''(i) $500 in the case of property described in subparagraph (A) other than clauses (i), (iv), and (viii) thereof,

''(ii) $500 for each kilowatt of capacity in the case of any fuel cell described in subparagraph (A)(i),

''(iii) $1,000 in the case of any natural gas heat pump described in subparagraph (A)(iv), and

''(iv) $150 for each ton of capacity in the case of any natural gas cooling equipment described in subparagraph (A)(viii).

''(4) COMBINED HEAT AND POWER SYSTEM PROPERTY.—

''(A) IN GENERAL.—The term 'combined heat and power system property' means property—

''(i) comprising a system for the same energy source for the simultaneous or sequential generation of electrical power, mechanical shaft power, or both, in combination with steam, heat, or other forms of useful energy,

''(ii) which has an electrical capacity of more than 50 kilowatts or a mechanical energy capacity of more than 67 horsepower or an equivalent combination of electrical and mechanical energy capacities,

''(iii) which produces—

''(I) at least 20 percent of its total useful energy in the form of thermal energy, and

''(II) at least 20 percent of its total useful energy in the form of electrical or mechanical power (or a combination thereof), and

''(iv) the energy efficiency percentage of which exceeds—

''(I) 60 percent in the case of a system with an electrical capacity of less than 1 megawatt,

''(II) 65 percent in the case of a system with an electrical capacity of not less than 1 megawatt and not in excess of 50 megawatts, and

''(III) 70 percent in the case of a system with an electrical capacity in excess of 50 megawatts.

''(B) SPECIAL RULES.—

''(i) ENERGY EFFICIENCY PERCENTAGE.—For purposes of subparagraph (A)(iv), the energy efficiency percentage of a system is the fraction—

''(I) the numerator of which is the total useful electrical, thermal, and mechanical power produced by the system at normal operating rates, and

''(II) the denominator of which is the lower heating value of the primary fuel source for the system.

''(ii) DETERMINATIONS MADE ON BTU BASIS.—The energy efficiency percentage and the percentages under subparagraph (A)(iii) shall be determined on a Btu basis.

''(iii) INPUT AND OUTPUT PROPERTY NOT INCLUDED.—The term 'combined heat and power system property' does not include property used to transport the energy source to the facility or to distribute energy produced by the facility.

''(iv) ACCOUNTING RULE FOR PUBLIC UTILITY PROPERTY.—If the combined heat and power system property is public utility property (as defined in section 46(f)(5) as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), the taxpayer may only claim the credit under subsection (a)(1) if, with respect to such property, the taxpayer uses a normalization method of accounting.

''(5) LOW CORE LOSS DISTRIBUTION TRANSFORMER PROPERTY.—The term 'low core loss distribution transformer property' means a distribution transformer which has energy savings from a highly efficient core of at least 20 percent more than the

average for power ratings reported by studies required under section 124 of the Energy Policy Act of 1992.

''(6) QUALIFIED ANAEROBIC DIGESTER PROPERTY.—The term 'qualified anaerobic digester property' means an anaerobic digester for manure or crop waste which achieves at least 65 percent efficiency measured in terms of the fraction of energy input converted to electricity and useful thermal energy.

''(7) QUALIFIED WIND ENERGY SYSTEMS EQUIPMENT PROPERTY.—The term 'qualified wind energy systems equipment property' means wind energy systems equipment with a turbine size of not more than 75 kilowatts rated capacity.

''(e) SPECIAL RULES.—For purposes of this section—

''(1) SPECIAL RULE FOR PROPERTY FINANCED BY SUBSIDIZED ENERGY FINANCING OR INDUSTRIAL DEVELOPMENT BONDS.—

''(A) REDUCTION OF BASIS.—For purposes of applying the energy percentage to any property, if such property is financed in whole or in part by—

''(i) subsidized energy financing, or

"(ii) the proceeds of a private activity bond (within the meaning of section 141) the interest on which is exempt from tax under section 103, the amount taken into account as the basis of such property shall not exceed the amount which (but for this subparagraph) would be so taken into account multiplied by the fraction determined under subparagraph (B).

"(B) DETERMINATION OF FRACTION.—For purposes of subparagraph (A), the fraction determined under this subparagraph is 1 reduced by a fraction—

"(i) the numerator of which is that portion of the basis of the property which is allocable to such financing or proceeds, and

"(ii) the denominator of which is the basis of the property.

"(C) SUBSIDIZED ENERGY FINANCING.—For purposes of subparagraph (A), the term 'subsidized energy financing' means financing provided under a Federal, State, or local program a principal purpose of which is to provide

subsidized financing for projects designed to conserve or produce energy.

''(2) CERTAIN PROGRESS EXPENDITURE RULES MADE APPLICABLE.—Rules similar to the rules of subsections (c)(4) and (d) of section 46 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) shall apply for purposes of this section.

''(f) APPLICATION OF SECTION.—

''(1) IN GENERAL.—Except as provided by paragraph (2), this section shall apply to property placed in service after December 31, 2001, and before January 1, 2009.

''(2) EXCEPTIONS.—

''(A) SOLAR ENERGY AND GEOTHERMAL ENERGY PROPERTY.—Paragraph (1) shall not apply to solar energy property or geothermal energy property.

''(B) CERTAIN ELECTRIC HEAT PUMPS AND CENTRAL AIR CONDITIONERS.—In the case of property which is described in subsection (d)(3)(A)(iii)(I) or (d)(3)(A)(v)(I), this section shall apply to property placed in service after December 31, 2001, and before January 1, 2006.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 48 is amended to read as follows:

"SEC. 48. REFORESTATION CREDIT.

"(a) IN GENERAL.—For purposes of section 46, the reforestation credit for any taxable year is 20 percent of the portion of the amortizable basis of any qualified timber property which was acquired during such taxable year and which is taken into account under section 194 (after the application of section 194(b)(1)).

"(b) DEFINITIONS.—For purposes of this subpart, the terms 'amortizable basis' and 'qualified timber property' have the respective meanings given to such terms by section 194.".

(2) Section 39(d) is amended by adding at the end the following:

"(10) NO CARRYBACK OF ENERGY CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the energy credit determined under section 48A may be carried back to a taxable year ending before January 1, 2002.".

(3) Section 280C is amended by adding at the end the following:

"(d) CREDIT FOR ENERGY PROPERTY EXPENSES.—

''(1) IN GENERAL.—No deduction shall be allowed for that portion of the expenses for energy property (as defined in section 48A(c)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 48A(a).

''(2) SIMILAR RULE WHERE TAXPAYER CAPITALIZES RATHER THAN DEDUCTS EXPENSES.—If—

''(A) the amount of the credit allowable for the taxable year under section 48A (determined without regard to section 38(c)), exceeds

''(B) the amount allowable as a deduction for the taxable year for expenses for energy property (determined without regard to paragraph (1)), the amount chargeable to capital account for the taxable year for such expenses shall be reduced by the amount of such excess.

''(3) CONTROLLED GROUPS.—Paragraph (3) of subsection (b) shall apply for purposes of this subsection.''.

(4) Section 29(b)(3)(A)(i)(III) is amended by striking 'section 48(a)(4)(C)' and inserting 'section 48A(e)(1)(C)'.

(5) Section 50(a)(2)(E) is amended by striking 'section 48(a)(5)' and inserting 'section 48A(e)(2)'.

(6) Section 168(e)(3)(B) is amended—

(A) by striking clause (vi)(I) and inserting the following:

"(I) is described in paragraph (1) or (2) of section 48A(d) (or would be so described if 'solar and wind' were substituted for 'solar' in paragraph (1)(B)),", and

(B) in the last sentence by striking "section 48(a)(3)" and inserting "section 48A(c)(2)(A)".

(c) CLERICAL AMENDMENT.—The table of sections for subpart E of part IV of subchapter A of chapter 1 is amended by striking the item relating to section 48 and inserting the following:

"Sec. 48. Reforestation credit.
"Sec. 48A. Energy credit.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2001, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 102. ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY DEDUCTION.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and

corporations) is amended by adding at the end the following:

"SEC. 199. ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY.

"(a) IN GENERAL.—There shall be allowed as a deduction for the taxable year an amount equal to the energy-efficient commercial building property expenditures made by a taxpayer for the taxable year.

"(b) MAXIMUM AMOUNT OF DEDUCTION.—The amount of energy-efficient commercial building property expenditures taken into account under subsection (a) shall not exceed an amount equal to the product of—

"(1) $2.25, and

"(2) the square footage of the building with respect to which the expenditures are made.

"(c) YEAR DEDUCTION ALLOWED.—The deduction under subsection (a) shall be allowed in the taxable year in which the construction of the building is completed.

"(d) ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY EXPENDITURES.—For purposes of this section—

"(1) IN GENERAL.—The term 'energy-efficient commercial building property expenditures' means an amount paid or incurred for energy-efficient commercial building property installed on or in connec-

tion with new construction or reconstruction of property—

"(A) for which depreciation is allowable under section 167,

"(B) which is located in the United States, and

"(C) the construction or erection of which is completed by the taxpayer.

Such property includes all residential rental property, including low-rise multifamily structures and single family housing property which is not within the scope of Standard 90.1–1999 (described in paragraph (3)).

"(2) LABOR COSTS INCLUDED.—Such term includes expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property.

"(3) ENERGY EXPENDITURES EXCLUDED.—Such term does not include any expenditures taken into account in determining any credit allowed under section 48A.

"(e) ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY.—For purposes of subsection (d)—

"(1) IN GENERAL.—The term 'energy-efficient commercial building property' means any property

which reduces total annual energy and power costs with respect to the lighting, heating, cooling, ventilation, and hot water supply systems of the building by 50 percent or more in comparison to a reference building which meets the requirements of Standard 90.1–1999 of the American Society of Heating, Refrigerating, and Air Conditioning Engineers and the Illuminating Engineering Society of North America using methods of calculation under subparagraph (B) and certified by qualified professionals as provided under paragraph (6).

''(2) METHODS OF CALCULATION.—The Secretary, in consultation with the Secretary of Energy, shall promulgate regulations which describe in detail methods for calculating and verifying energy and power consumption and cost, taking into consideration the provisions of the 1998 California Nonresidential ACM Manual. These procedures shall meet the following requirements:

''(A) In calculating tradeoffs and energy performance, the regulations shall prescribe the costs per unit of energy and power, such as kilowatt hour, kilowatt, gallon of fuel oil, and cubic foot or Btu of natural gas, which may be dependent on time of usage.

''(B) The calculational methodology shall require that compliance be demonstrated for a whole building. If some systems of the building, such as lighting, are designed later than other systems of the building, the method shall provide that either—

''(i) the expenses taken into account under paragraph (1) shall not occur until the date designs for all energy-using systems of the building are completed, or

''(ii) the expenses taken into account under paragraph (1) shall be a fraction of such expenses based on the performance of less than all energy-using systems in accordance with subparagraph (C), and the energy performance of all systems and components not yet designed shall be assumed to comply minimally with the requirements of such Standard 90.1–1999.

''(C) The expenditures in connection with the design of subsystems in the building, such as the envelope, the heating, ventilation, air conditioning and water heating system, and the lighting system shall be allocated to the appropriate building subsystem based on system-spe-

cific energy cost savings targets in regulations promulgated by the Secretary of Energy which are equivalent, using the calculation methodology, to the whole building requirement of 50 percent savings.

''(D) The calculational methods under this paragraph need not comply fully with section 11 of such Standard 90.1–1999.

''(E) The calculational methods shall be fuel neutral, such that the same energy efficiency features shall qualify a building for the deduction under this section regardless of whether the heating source is a gas or oil furnace or an electric heat pump.

''(F) The calculational methods shall provide appropriate calculated energy savings for design methods and technologies not otherwise credited in either such Standard 90.1–1999 or in the 1998 California Nonresidential ACM Manual, including the following:

''(i) Natural ventilation.

''(ii) Evaporative cooling.

''(iii) Automatic lighting controls such as occupancy sensors, photocells, and timeclocks.

''(iv) Daylighting.

''(v) Designs utilizing semi-conditioned spaces which maintain adequate comfort conditions without air conditioning or without heating.

''(vi) Improved fan system efficiency, including reductions in static pressure.

''(vii) Advanced unloading mechanisms for mechanical cooling, such as multiple or variable speed compressors.

''(viii) The calculational methods may take into account the extent of commissioning in the building, and allow the taxpayer to take into account measured performance which exceeds typical performance.

''(3) COMPUTER SOFTWARE.—

''(A) IN GENERAL.—Any calculation under this subsection shall be prepared by qualified computer software.

''(B) QUALIFIED COMPUTER SOFTWARE.—For purposes of this paragraph, the term 'qualified computer software' means software—

''(i) for which the software designer has certified that the software meets all

procedures and detailed methods for calculating energy and power consumption and costs as required by the Secretary,

''(ii) which provides such forms as required to be filed by the Secretary in connection with energy efficiency of property and the deduction allowed under this section, and

''(iii) which provides a notice form which summarizes the energy efficiency features of the building and its projected annual energy costs.

''(4) ALLOCATION OF DEDUCTION FOR PUBLIC PROPERTY.—In the case of energy-efficient commercial building property installed on or in public property, the Secretary shall promulgate a regulation to allow the allocation of the deduction to the person primarily responsible for designing the property in lieu of the public entity which is the owner of such property. Such person shall be treated as the taxpayer for purposes of this section.

''(5) NOTICE TO OWNER.—The qualified individual shall provide an explanation to the owner of the building regarding the energy efficiency features of the building and its projected annual energy costs

as provided in the notice under paragraph (3)(B)(iii).

''(6) CERTIFICATION.—

''(A) IN GENERAL.—Except as provided in this paragraph, the Secretary, in consultation with the Secretary of Energy, shall establish requirements for certification and compliance procedures similar to the procedures under section 45F(d).

''(B) QUALIFIED INDIVIDUALS.—Individuals qualified to determine compliance shall be only those individuals who are recognized by an organization certified by the Secretary for such purposes.

''(C) PROFICIENCY OF QUALIFIED INDIVIDUALS.—The Secretary shall consult with nonprofit organizations and State agencies with expertise in energy efficiency calculations and inspections to develop proficiency tests and training programs to qualify individuals to determine compliance.

''(f) TERMINATION.—This section shall not apply with respect to any energy-efficient commercial building property expenditures in connection with property—

''(1) the plans for which are not certified under subsection (e)(6) on or before December 31, 2006, and

''(2) the construction of which is not completed on or before December 31, 2008.''.

(b) CONFORMING AMENDMENTS.—Section 1016(a) is amended by striking ''and'' at the end of paragraph (26), by striking the period at the end of paragraph (27) and inserting '', and'', and by inserting the following:

''(28) for amounts allowed as a deduction under section 199(a).''.

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by adding at the end the following:

''Sec. 199. Energy-efficient commercial building property.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 103. CREDIT FOR ENERGY-EFFICIENT APPLIANCES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business-related credits) is amended by adding at the end the following:

''SEC. 45E. ENERGY-EFFICIENT APPLIANCE CREDIT.

''(a) GENERAL RULE.—For purposes of section 38, the energy-efficient appliance credit determined under this section for the taxable year is an amount equal to the ap-

plicable amount determined under subsection (b) with respect to qualified energy-efficient appliances produced by the taxpayer during the calendar year ending with or within the taxable year.

''(b) APPLICABLE AMOUNT.—For purposes of subsection (a), the applicable amount determined under this subsection with respect to a taxpayer is the sum of—

''(1) in the case of an energy-efficient clothes washer described in subsection (d)(2)(A) or an energy-efficient refrigerator described in subsection (d)(3)(B)(i), an amount equal to—

''(A) $50, multiplied by

''(B) the number of such washers and refrigerators produced by the taxpayer during such calendar year, and

''(2) in the case of an energy-efficient clothes washer described in subsection (d)(2)(B) or an energy-efficient refrigerator described in subsection (d)(3)(B)(ii), an amount equal to—

''(A) $100, multiplied by

''(B) the number of such washers and refrigerators produced by the taxpayer during such calendar year.

''(c) LIMITATION ON MAXIMUM CREDIT.—

''(1) IN GENERAL.—The maximum amount of credit allowed under subsection (a) with respect to a taxpayer for all taxable years shall be—

''(A) $30,000,000 with respect to the credit determined under subsection (b)(1), and

''(B) $30,000,000 with respect to the credit determined under subsection (b)(2).

''(2) LIMITATION BASED ON GROSS RECEIPTS.—The credit allowed under subsection (a) with respect to a taxpayer for the taxable year shall not exceed an amount equal to 2 percent of the average annual gross receipts of the taxpayer for the 3 taxable years preceding the taxable year in which the credit is determined.

''(3) GROSS RECEIPTS.—For purposes of this subsection, the rules of paragraphs (2) and (3) of section 448(c) shall apply.

''(d) QUALIFIED ENERGY-EFFICIENT APPLIANCE.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified energy-efficient appliance' means—

''(A) an energy-efficient clothes washer, or

''(B) an energy-efficient refrigerator.

''(2) ENERGY-EFFICIENT CLOTHES WASHER.—The term 'energy-efficient clothes washer' means a

residential clothes washer, including a residential style coin operated washer, which is manufactured with—

"(A) a 1.26 Modified Energy Factor (referred to in this paragraph as 'MEF') (as determined by the Secretary of Energy), or

"(B) a 1.42 MEF (as determined by the Secretary of Energy) (1.5 MEF for calendar years beginning after 2004).

"(3) ENERGY-EFFICIENT REFRIGERATOR.—The term 'energy-efficient refrigerator' means an automatic defrost refrigerator-freezer which—

"(A) has an internal volume of at least 16.5 cubic feet, and

"(B) consumes—

"(i) 10 percent less kWh per year than the energy conservation standards promulgated by the Department of Energy for such refrigerator for 2001, or

"(ii) 15 percent less kWh per year than such energy conservation standards.

"(e) SPECIAL RULES.—

"(1) IN GENERAL.—Rules similar to the rules of subsections (c), (d), and (e) of section 52 shall apply for purposes of this section.

''(2) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as one person for purposes of subsection (a).

''(f) VERIFICATION.—The taxpayer shall submit such information or certification as the Secretary, in consultation with the Secretary of Energy, determines necessary to claim the credit amount under subsection (a).

''(g) TERMINATION.—This section shall not apply—

''(1) with respect to energy-efficient refrigerators described in subsection (d)(3)(B)(i) produced in calendar years beginning after 2005, and

''(2) with respect to all other qualified energy-efficient appliances produced in calendar years beginning after 2007.''.

(b) LIMITATION ON CARRYBACK.—Section 39(d) (relating to transition rules), as amended by section 101(b)(2), is amended by adding at the end the following:

''(11) NO CARRYBACK OF ENERGY-EFFICIENT APPLIANCE CREDIT BEFORE 2002.—No portion of the unused business credit for any taxable year which is attributable to the energy-efficient appliance credit determined under section 45E may be

carried to a taxable year beginning before January 1, 2002.''.

(c) DENIAL OF DOUBLE BENEFIT.—Section 280C (relating to certain expenses for which credits are allowable), as amended by section 102(b)(3), is amended by adding at the end the following:

''(e) CREDIT FOR ENERGY-EFFICIENT APPLIANCE EXPENSES.—No deduction shall be allowed for that portion of the expenses for qualified energy-efficient appliances (as defined in section 45E(d)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45E(a).''.

(d) CONFORMING AMENDMENT.—Section 38(b) (relating to general business credit) is amended by striking ''plus'' at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting '', plus'', and by adding at the end the following:

''(14) the energy-efficient appliance credit determined under section 45E(a).''.

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 45D the following:

''Sec. 45E. Energy-efficient appliance credit.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

TITLE II—RESIDENTIAL ENERGY SYSTEMS

SEC. 201. CREDIT FOR CONSTRUCTION OF NEW ENERGY-EFFICIENT HOME.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 103(a), is amended by inserting after section 45E the following:

"SEC. 45F. NEW ENERGY-EFFICIENT HOME CREDIT.

''(a) IN GENERAL.—For purposes of section 38, in the case of an eligible contractor, the credit determined under this section for the taxable year is an amount equal to the aggregate adjusted bases of all energy-efficient property installed in a qualified new energy-efficient home during construction of such home.

''(b) LIMITATIONS.—

''(1) MAXIMUM CREDIT.—

''(A) IN GENERAL.—The credit allowed by this section with respect to a dwelling shall not exceed—

''(i) in the case of a dwelling described in subsection (c)(3)(D)(i), $1,500, and

"(ii) in the case of a dwelling described in subsection (c)(3)(D)(ii), $2,500.

"(B) PRIOR CREDIT AMOUNTS ON SAME DWELLING TAKEN INTO ACCOUNT.—If a credit was allowed under subsection (a) with respect to a dwelling in 1 or more prior taxable years, the amount of the credit otherwise allowable for the taxable year with respect to that dwelling shall not exceed the amount under clause (i) or (ii) (as the case may be), reduced by the sum of the credits allowed under subsection (a) with respect to the dwelling for all prior taxable years.

"(2) COORDINATION WITH REHABILITATION AND ENERGY CREDITS.—For purposes of this section—

"(A) the basis of any property referred to in subsection (a) shall be reduced by that portion of the basis of any property which is attributable to qualified rehabilitation expenditures (as defined in section 47(c)(2)) or to the energy percentage of energy property (as determined under section 48A(a)), and

''(B) expenditures taken into account under either section 47 or 48A(a) shall not be taken into account under this section.

''(c) DEFINITIONS.—For purposes of this section—

''(1) ELIGIBLE CONTRACTOR.—The term 'eligible contractor' means the person who constructed the new energy-efficient home, or in the case of a manufactured home which conforms to Federal Manufactured Home Construction and Safety Standards (24 C.F.R. 3280), the manufactured home producer of such home.

''(2) ENERGY-EFFICIENT PROPERTY.—The term 'energy-efficient property' means any energy-efficient building envelope component, and any energy-efficient heating or cooling equipment which can, individually or in combination with other components, meet the requirements of this section.

''(3) QUALIFIED NEW ENERGY-EFFICIENT HOME.—The term 'qualified new energy-efficient home' means a dwelling—

''(A) located in the United States,

''(B) the construction of which is substantially completed after December 31, 2000,

''(C) the original use of which is as a principal residence (within the meaning of section

121) which commences with the person who acquires such dwelling from the eligible contractor, and

''(D) which is certified to have a projected level of annual heating and cooling energy consumption, measured in terms of average annual energy cost to the homeowner which is at least—

''(i) 30 percent less than the annual level of heating and cooling energy consumption of a reference dwelling constructed in accordance with the standards of chapter 4 of the 2000 International Energy Conservation Code, or

''(ii) 50 percent less than such annual level of heating and cooling energy consumption.

''(4) CONSTRUCTION.—The term 'construction' includes reconstruction and rehabilitation.

''(5) ACQUIRE.—The term 'acquire' includes purchase and, in the case of reconstruction and rehabilitation, such term includes a binding written contract for such reconstruction or rehabilitation.

''(6) BUILDING ENVELOPE COMPONENT.—The term 'building envelope component' means—

''(A) insulation material or system which is specifically and primarily designed to reduce the heat loss or gain of a dwelling when installed in or on such dwelling, and

''(B) exterior windows (including skylights) and doors.

''(7) MANUFACTURED HOME INCLUDED.—The term 'dwelling' includes a manufactured home conforming to Federal Manufactured Home Construction and Safety Standards (24 C.F.R. 3280).

''(d) CERTIFICATION.—

''(1) METHOD.—A certification described in subsection (c)(3)(D) shall be determined on the basis of 1 of the following methods:

''(A) A component-based method, using the applicable technical energy efficiency specifications or ratings (including product labeling requirements) for the energy-efficient building envelope component or energy-efficient heating or cooling equipment. The Secretary shall, in consultation with the Administrator of the Environmental Protection Agency, develop prescriptive component-based packages that are equivalent in energy performance to properties that qualify under subparagraph (B).

''(B) An energy performance-based method that calculates projected energy usage and cost reductions in the dwelling in relation to a reference dwelling—

''(i) heated by the same energy source and heating system type, and

''(ii) constructed in accordance with the standards of chapter 4 of the 2000 International Energy Conservation Code.

Computer software shall be used in support of an energy performance-based method certification under subparagraph (B). Such software shall meet procedures and methods for calculating energy and cost savings in regulations promulgated by the Secretary of Energy. Such regulations on the specifications for software and verification protocols shall be based on the 1998 California Residential Alternative Calculation Method Approval Manual.

''(2) PROVIDER.—Such certification shall be provided by—

''(A) in the case of a method described in paragraph (1)(A), a local building regulatory authority, a utility, a manufactured home production inspection primary inspection agency

(IPIA), or a home energy rating organization, or

''(B) in the case of a method described in paragraph (1)(B), an individual recognized by an organization designated by the Secretary for such purposes.

''(3) FORM.—

''(A) IN GENERAL.—Such certification shall be made in writing in a manner that specifies in readily verifiable fashion the energy-efficient building envelope components and energy-efficient heating or cooling equipment installed and their respective rated energy efficiency performance, and in the case of a method described in paragraph (1)(B), accompanied by written analysis documenting the proper application of a permissible energy performance calculation method to the specific circumstances of such dwelling.

''(B) FORM PROVIDED TO BUYER.—A form documenting the energy-efficient building envelope components and energy-efficient heating or cooling equipment installed and their rated energy efficiency performance shall be provided to the buyer of the dwelling. The form shall in-

clude labeled R-value for insulation products, NFRC-labeled U-factor and Solar Heat Gain Coefficient for windows, skylights, and doors, labeled AFUE ratings for furnaces and boilers, labeled HSPF ratings for electric heat pumps, and labeled SEER ratings for air conditioners.

''(C) RATINGS LABEL AFFIXED IN DWELLING.—A permanent label documenting the ratings in subparagraph (B) shall be affixed to the front of the electrical distribution panel of the dwelling, or shall be otherwise permanently displayed in a readily inspectable location in the dwelling.

''(4) REGULATIONS.—

''(A) IN GENERAL.—In prescribing regulations under this subsection for energy performance-based certification methods, the Secretary, after examining the requirements for energy consultants and home energy ratings providers specified by the Mortgage Industry National Accreditation Procedures for Home Energy Rating Systems, shall prescribe procedures for calculating annual energy usage and cost reductions for heating and cooling and for the reporting of the results. Such regulations shall—

''(i) provide that any calculation procedures be fuel neutral such that the same energy efficiency measures allow a home to qualify for the credit under this section regardless of whether the dwelling uses a gas or oil furnace or boiler or an electric heat pump, and

''(ii) require that any computer software allow for the printing of the Federal tax forms necessary for the credit under this section and for the printing of forms for disclosure to the homebuyer.

''(B) PROVIDERS.—For purposes of paragraph (2)(B), the Secretary shall establish requirements for the designation of individuals based on the requirements for energy consultants and home energy raters specified by the Mortgage Industry National Accreditation Procedures for Home Energy Rating Systems.

''(e) BASIS ADJUSTMENT.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

''(f) TERMINATION.—Subsection (a) shall apply to dwellings purchased during the period beginning on January 1, 2001, and ending on December 31, 2005.''.

(b) CREDIT MADE PART OF GENERAL BUSINESS CREDIT.—Subsection (b) of section 38 (relating to current year business credit), as amended by section 103(d), is amended by striking ''plus'' at the end of paragraph (13), by striking the period at the end of paragraph (14) and inserting '', plus'', and by adding at the end the following:

''(15) the new energy-efficient home credit determined under section 45F.''.

(c) DENIAL OF DOUBLE BENEFIT.—Section 280C (relating to certain expenses for which credits are allowable), as amended by section 103(c), is amended by adding at the end the following:

''(f) NEW ENERGY-EFFICIENT HOME EXPENSES.—No deduction shall be allowed for that portion of expenses for a new energy-efficient home otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45F.''.

(d) CREDIT ALLOWED AGAINST REGULAR AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax) is

amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

''(3) SPECIAL RULES FOR NEW ENERGY EFFICIENT HOME CREDIT.—

''(A) IN GENERAL.—In the case of the new energy efficient home credit—

''(i) this section and section 39 shall be applied separately with respect to the credit, and

''(ii) in applying paragraph (1) to the credit—

''(I) subparagraphs (A) and (B) thereof shall not apply, and

''(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the new energy efficient home credit).

''(B) NEW ENERGY EFFICIENT HOME CREDIT.—For purposes of this subsection, the term 'new energy efficient home credit' means the credit allowable under subsection (a) by reason of section 45F.''.

(2) CONFORMING AMENDMENT.—Subclause (II) of section 38(c)(2)(A)(ii) is amended by inserting ''or the new energy efficient home credit'' after ''employment credit''.

(e) LIMITATION ON CARRYBACK.—Subsection (d) of section 39, as amended by section 103(b), is amended by adding at the end the following:

''(12) NO CARRYBACK OF NEW ENERGY-EFFICIENT HOME CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the credit determined under section 45F may be carried back to any taxable year ending before January 1, 2001.''.

(f) DEDUCTION FOR CERTAIN UNUSED BUSINESS CREDITS.—Subsection (c) of section 196 is amended by striking ''and'' at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting '', and'', and by adding after paragraph (8) the following:

''(9) the new energy-efficient home credit determined under section 45F.''.

(g) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 103(d), is amended by inserting after the item relating to section 45E the following:

''Sec. 45F. New energy-efficient home credit.''.

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2000.

SEC. 202. CREDIT FOR ENERGY EFFICIENCY IMPROVEMENTS TO EXISTING HOMES.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 25A the following new section:

"SEC. 25B. ENERGY EFFICIENCY IMPROVEMENTS TO EXISTING HOMES.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during such taxable year.

''(b) LIMITATIONS.—

''(1) MAXIMUM CREDIT.—The credit allowed by this section with respect to a dwelling shall not exceed $2,000.

''(2) PRIOR CREDIT AMOUNTS FOR TAXPAYER ON SAME DWELLING TAKEN INTO ACCOUNT.—If a credit was allowed to the taxpayer under subsection (a) with respect to a dwelling in 1 or more prior tax-

able years, the amount of the credit otherwise allowable for the taxable year with respect to that dwelling shall not exceed the amount of $2,000 reduced by the sum of the credits allowed under subsection (a) to the taxpayer with respect to the dwelling for all prior taxable years.

''(c) CARRYFORWARD OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under subpart A of part IV of subchapter A (other than this section), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

''(d) QUALIFIED ENERGY EFFICIENCY IMPROVEMENTS.—For purposes of this section, the term 'qualified energy efficiency improvements' means any energy efficient building envelope component which is certified to meet or exceed the prescriptive criteria for such component in the 2000 International Energy Conservation Code, or any combination of energy efficiency measures which achieves at least a 30 percent reduction in heating and cooling energy usage for the dwelling (as measured in terms of energy cost to the taxpayer), if—

''(1) such component or combinations of measures is installed in or on a dwelling—

''(A) located in the United States, and

''(B) owned and used by the taxpayer as the taxpayer's principal residence (within the meaning of section 121),

''(2) the original use of such component or combination of measures commences with the taxpayer, and

''(3) such component or combination of measures reasonably can be expected to remain in use for at least 5 years.

''(e) CERTIFICATION.—The certification described in subsection (d) shall be—

''(1) in the case of any component described in subsection (d), determined on the basis of applicable energy efficiency ratings (including product labeling requirements) for affected building envelope components,

''(2) in the case of combinations of measures described in subsection (d), determined by the performance-based methods described in section 45F(d),

''(3) provided by a third party, such as a local building regulatory authority, a utility, a manufac-

tured home production inspection primary inspection agency (IPIA), or a home energy rating organization, consistent with the requirements of section 45F(d)(2), and

''(4) made in writing on forms which specify in readily inspectable fashion the energy-efficient components and other measures and their respective efficiency ratings, and which shall include a permanent label affixed to the electrical distribution panel as described in section 45F(d)(3)(C).

''(f) DEFINITIONS AND SPECIAL RULES.—

''(1) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which is jointly occupied and used during any calendar year as a residence by 2 or more individuals the following shall apply:

''(A) The amount of the credit allowable under subsection (a) by reason of expenditures for the qualified energy efficiency improvements made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such individuals as 1 taxpayer whose taxable year is such calendar year.

''(B) There shall be allowable with respect to such expenditures to each of such individuals, a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

''(2) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—In the case of an individual who is a tenant-stockholder (as defined in section 216) in a cooperative housing corporation (as defined in such section), such individual shall be treated as having paid his tenant-stockholder's proportionate share (as defined in section 216(b)(3)) of the cost of qualified energy efficiency improvements made by such corporation.

''(3) CONDOMINIUMS.—

''(A) IN GENERAL.—In the case of an individual who is a member of a condominium management association with respect to a condominium which he owns, such individual shall be treated as having paid his proportionate share

of the cost of qualified energy efficiency improvements made by such association.

''(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term 'condominium management association' means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

''(4) BUILDING ENVELOPE COMPONENT.—The term 'building envelope component' means—

''(A) insulation material or system which is specifically and primarily designed to reduce the heat loss or gain or a dwelling when installed in or on such dwelling, and

''(B) exterior windows (including skylights) and doors.

''(5) MANUFACTURED HOMES INCLUDED.—For purposes of this section, the term 'dwelling' includes a manufactured home which conforms to Federal Manufactured Home Construction and Safety Standards (24 C.F.R. 3280).

''(g) BASIS ADJUSTMENT.—For purposes of this subtitle, if a credit is allowed under this section for any ex-

penditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

''(h) TERMINATION.—Subsection (a) shall apply to qualified energy efficiency improvements installed during the period beginning on the date of the enactment of this section and ending on December 31, 2005.''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (c) of section 23 is amended by inserting '', section 25B, and section 1400C'' after ''other than this section''.

(2) Subparagraph (C) of section 25(e)(1) is amended by striking ''section 23'' and inserting ''sections 23, 25B, and 1400C''.

(3) Subsection (d) of section 1400C is amended by inserting ''and section 25B'' after ''other than this section''.

(4) Subsection (a) of section 1016, as amended by section 102(b), is amended by striking ''and'' at the end of paragraph (27), by striking the period at the end of paragraph (28) and inserting ''; and'', and by adding at the end the following:

''(29) to the extent provided in section 25B(f), in the case of amounts with respect to which a credit has been allowed under section 25B.''.

(5) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following new item:

''Sec. 25B. Energy efficiency improvements to existing homes.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending on or after the date of the enactment of this Act.

SEC. 203. CREDIT FOR RESIDENTIAL SOLAR, WIND, AND FUEL CELL ENERGY PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits), as amended by section 201(a), is amended by inserting after section 25B the following:

''SEC. 25C. RESIDENTIAL SOLAR, WIND, AND FUEL CELL ENERGY PROPERTY.

''(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

''(1) 15 percent of the qualified photovoltaic property expenditures,

''(2) 15 percent of the qualified solar water heating property expenditures,

''(3) 30 percent of the qualified wind energy property expenditures, and

''(4) 20 percent for the qualified fuel cell property expenditures,

made by the taxpayer during the taxable year.

''(b) LIMITATIONS.—

''(1) MAXIMUM CREDIT.—The credit allowed under subsection (a)(2) shall not exceed $2,000 for each system of solar energy property.

''(2) TYPE OF PROPERTY.—No expenditure may be taken into account under this section unless such expenditure is made by the taxpayer for property installed on or in connection with a dwelling unit which is located in the United States and which is used as a residence.

''(3) SAFETY CERTIFICATIONS.—No credit shall be allowed under this section for an item of property unless—

''(A) in the case of solar water heating property, such property is certified for performance and safety by the non-profit Solar Rating Certification Corporation or a comparable enti-

ty endorsed by the government of the State in which such property is installed, and

''(B) in the case of a photovoltaic, wind energy, or fuel cell property, such property meets appropriate fire and electric code requirements.

''(c) DEFINITIONS.—For purposes of this section—

''(1) QUALIFIED SOLAR WATER HEATING PROPERTY EXPENDITURE.—The term 'qualified solar water heating property expenditure' means an expenditure for property which uses solar energy to heat water for use in a dwelling unit with respect to which a majority of the energy is derived from the sun.

''(2) QUALIFIED PHOTOVOLTAIC PROPERTY EXPENDITURE.—The term 'qualified photovoltaic property expenditure' means an expenditure for property which uses solar energy to generate electricity for use in a dwelling unit.

''(3) SOLAR PANELS.—No expenditure relating to a solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as property described in paragraph (1) or (2) solely because it constitutes a structural component of the structure on which it is installed.

''(4) QUALIFIED WIND ENERGY PROPERTY EXPENDITURE.—The term 'qualified wind energy property expenditure' means an expenditure for property which uses wind energy to generate electricity for use in a dwelling unit.

''(5) QUALIFIED FUEL CELL PROPERTY EXPENDITURE.—The term 'qualified fuel cell property expenditure' means an expenditure for property which uses an electrochemical fuel cell system to generate electricity for use in a dwelling unit.

''(6) LABOR COSTS.—Expenditures for labor costs properly allocable to the onsite preparation, assembly, or original installation of the property described in paragraph (1), (2), (4), or (5) and for piping or wiring to interconnect such property to the dwelling unit shall be taken into account for purposes of this section.

''(7) ENERGY STORAGE MEDIUM.—Expenditures which are properly allocable to a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage shall not be taken into account for purposes of this section.

''(d) SPECIAL RULES.—For purposes of this section—

''(1) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which is jointly occupied and used during any calendar year as a residence by 2 or more individuals the following shall apply:

''(A) The amount of the credit allowable under subsection (a) by reason of expenditures (as the case may be) made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such individuals as 1 taxpayer whose taxable year is such calendar year.

''(B) There shall be allowable with respect to such expenditures to each of such individuals, a credit under subsection (a) for the taxable year in which such calendar year ends in an amount which bears the same ratio to the amount determined under subparagraph (A) as the amount of such expenditures made by such individual during such calendar year bears to the aggregate of such expenditures made by all of such individuals during such calendar year.

''(2) TENANT-STOCKHOLDER IN COOPERATIVE HOUSING CORPORATION.—In the case of an individual who is a tenant-stockholder (as defined in sec-

tion 216) in a cooperative housing corporation (as defined in such section), such individual shall be treated as having made his tenant-stockholder's proportionate share (as defined in section 216(b)(3)) of any expenditures of such corporation.

''(3) CONDOMINIUMS.—

''(A) IN GENERAL.—In the case of an individual who is a member of a condominium management association with respect to a condominium which such individual owns, such individual shall be treated as having made his proportionate share of any expenditures of such association.

''(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term 'condominium management association' means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

''(4) JOINT OWNERSHIP OF ITEMS OF SOLAR OR WIND ENERGY PROPERTY.—

''(A) IN GENERAL.—Any expenditure otherwise qualifying as an expenditure described in

paragraph (1), (2), or (4) of subsection (c) shall not be treated as failing to so qualify merely because such expenditure was made with respect to 2 or more dwelling units.

''(B) LIMITS APPLIED SEPARATELY.—In the case of any expenditure described in subparagraph (A), the amount of the credit allowable under subsection (a) shall (subject to paragraph (1)) be computed separately with respect to the amount of the expenditure made for each dwelling unit.

''(5) ALLOCATION IN CERTAIN CASES.—If less than 80 percent of the use of an item is for nonbusiness residential purposes, only that portion of the expenditures for such item which is properly allocable to use for nonbusiness residential purposes shall be taken into account. For purposes of this paragraph, use for a swimming pool shall be treated as use which is not for residential purposes.

''(6) WHEN EXPENDITURE MADE; AMOUNT OF EXPENDITURE.—

''(A) IN GENERAL.—Except as provided in subparagraph (B), an expenditure with respect to an item shall be treated as made when the original installation of the item is completed.

''(B) EXPENDITURES PART OF BUILDING CONSTRUCTION.—In the case of an expenditure in connection with the construction or reconstruction of a structure, such expenditure shall be treated as made when the original use of the constructed or reconstructed structure by the taxpayer begins.

''(C) AMOUNT.—The amount of any expenditure shall be the cost thereof.

''(7) REDUCTION OF CREDIT FOR GRANTS, TAX-EXEMPT BONDS, AND SUBSIDIZED ENERGY FINANCING.—The rules of section 29(b)(3) shall apply for purposes of this section.

''(e) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

''(f) TERMINATION.—The credit allowed under this section shall not apply to taxable years beginning after December 31, 2011.''.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 1016, as amended by section 201(b)(4), is amended by striking ''and''

at the end of paragraph (28), by striking the period at the end of paragraph (29) and inserting ''; and'', and by adding at the end the following:

''(30) to the extent provided in section 25C(e), in the case of amounts with respect to which a credit has been allowed under section 25C.''.

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1, as amended by section 201(b)(2), is amended by inserting after the item relating to section 25B the following:

''Sec. 25C. Residential solar, wind, and fuel cell energy property.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures made after the date of the enactment of this Act, in taxable years ending after such date.

TITLE III—ELECTRICITY FACILITIES AND PRODUCTION

SEC. 301. INCENTIVE FOR DISTRIBUTED GENERATION.

(a) DEPRECIATION OF DISTRIBUTED POWER PROPERTY.—

(1) IN GENERAL.—Subparagraph (C) of section 168(e)(3) (relating to 7-year property) is amended by redesignating clause (ii) as clause (iii) and by inserting after clause (i) the following:

''(ii) any distributed power property, and''.

(2) 10-YEAR CLASS LIFE.—The table contained in section 168(g)(3)(B) is amended by inserting after the item relating to subparagraph (C)(i) the following:

''(C)(ii) ..... 10''.

(b) DISTRIBUTED POWER PROPERTY.—Section 168(i) is amended by adding at the end the following:

''(15) DISTRIBUTED POWER PROPERTY.—The term 'distributed power property' means property—

''(A) which is used in the generation of electricity for primary use—

''(i) in nonresidential real or residential rental property used in the taxpayer's trade or business, or

''(ii) in the taxpayer's industrial manufacturing process or plant activity, with a rated total capacity in excess of 500 kilowatts,

''(B) which also may produce usable thermal energy or mechanical power for use in a heating or cooling application, as long as at least 40 percent of the total useful energy produced consists of—

"(i) with respect to assets described in subparagraph (A)(i), electrical power (whether sold or used by the taxpayer), or

"(ii) with respect to assets described in subparagraph (A)(ii), electrical power (whether sold or used by the taxpayer) and thermal or mechanical energy used in the taxpayer's industrial manufacturing process or plant activity,

"(C) which is not used to transport primary fuel to the generating facility or to distribute energy within or outside of the facility, and

"(D) where it is reasonably expected that not more than 50 percent of the produced electricity will be sold to, or used by, unrelated persons.

For purposes of subparagraph (B), energy output is determined on the basis of expected annual output levels, measured in British thermal units (Btu), using standard conversion factors established by the Secretary.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

SEC. 302. MODIFICATIONS TO CREDIT FOR ELECTRICITY PRODUCED FROM RENEWABLE AND WASTE PRODUCTS.

(a) INCREASE IN CREDIT RATE.—

(1) IN GENERAL.—Section 45(a)(1) is amended by striking ''1.5 cents'' and inserting ''1.8 cents''.

(2) CONFORMING AMENDMENTS.—

(A) Section 45(b)(2) is amended by striking ''1.5 cent'' and inserting ''1.8 cent''.

(B) Section 45(d)(2)(B) is amended by inserting ''(calendar year 2001 in the case of the 1.8 cent amount in subsection (a))'' after ''1992''.

(b) EXPANSION OF QUALIFIED RESOURCES.—

(1) IN GENERAL.—Section 45(c)(1) (relating to qualified energy resources) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', and'', and by adding at the end the following:

''(D) alternative resources.''.

(2) DEFINITION OF ALTERNATIVE RESOURCES.—Section 45(c) (relating to definitions) is amended—

(A) by redesignating paragraph (3) as paragraph (5),

(B) by redesignating paragraph (4) as paragraph (3), and

(C) by inserting after paragraph (3), as redesignated by subparagraph (B), the following:

''(4) ALTERNATIVE RESOURCES.—

''(A) IN GENERAL.—The term 'alternative resources' means—

''(i) solar,

''(ii) biomass (other than closed loop biomass),

''(iii) municipal solid waste,

''(iv) incremental hydropower,

''(v) geothermal,

''(vi) landfill gas, and

''(vii) steel cogeneration.

''(B) BIOMASS.—The term 'biomass' means any solid, nonhazardous, cellulosic waste material or any organic carbohydrate matter, which is segregated from other waste materials, and which is derived from—

''(i) any of the following forest-related resources: mill residues, precommercial thinnings, slash, and brush, but not including old-growth timber,

''(ii) waste pallets, crates, dunnage, untreated wood waste from construction or manufacturing activities, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste or post-consumer wastepaper, or

''(iii) any of the following agriculture sources: orchard tree crops, vineyard, grain, legumes, sugar, and other crop by-products or residues, including any packaging and other materials which are nontoxic and biodegradable and are associated with the processing, feeding, selling, transporting, and disposal of such agricultural materials.

''(C) MUNICIPAL SOLID WASTE.—The term 'municipal solid waste' has the same meaning given the term 'solid waste' under section 2(27) of the Solid Waste Utilization Act (42 U.S.C. 6903).

''(D) INCREMENTAL HYDROPOWER.—The term 'incremental hydropower' means additional generating capacity achieved from—

''(i) increased efficiency, or

''(ii) additions of new capacity,

at a licensed non-Federal hydroelectric project originally placed in service before the date of the enactment of this paragraph.

''(E) GEOTHERMAL.—The term 'geothermal' means energy derived from a geothermal deposit (within the meaning of section 613(e)(2)), but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage.

''(F) LANDFILL GAS.—The term 'landfill gas' means gas generated from the decomposition of any household solid waste, commercial solid waste, and industrial solid waste disposed of in a municipal solid waste landfill unit (as such terms are defined in regulations promulgated under subtitle D of the Solid Waste Disposal Act (42 U.S.C. 6941 et seq.).

''(G) STEEL COGENERATION.—The term 'steel cogeneration' means the production of electricity and steam (or other form of thermal energy) from any or all waste sources defined in paragraphs (2) and (3) and subparagraphs (B) and (C) of this paragraph within an operating facility which produces or integrates the production of coke, direct reduced iron ore,

iron, or steel provided that the cogeneration meets any regulatory energy-efficiency standards established by the Secretary, and only to the extent that such energy is produced from—

''(i) gases or heat generated from the production of metallurgical coke,

''(ii) gases or heat generated from the production of direct reduced iron ore or iron, from blast furnace or direct ironmaking processes, or

''(iii) gases or heat generated from the manufacture of steel.''.

(3) QUALIFIED FACILITY.—Section 45(c)(5) (defining qualified facility), as redesignated by paragraph 2(A), is amended by adding at the end the following:

''(D) ALTERNATIVE RESOURCES FACILITY.—

''(i) IN GENERAL.—Except as provided in clauses (ii), (iii), and (iv), in the case of a facility using alternative resources to produce electricity, the term 'qualified facility' means any facility of the taxpayer which is originally placed in serv-

ice after the date of the enactment of this subparagraph.

''(ii) BIOMASS FACILITY.—In the case of a facility using biomass described in paragraph (4)(A)(ii) to produce electricity, the term 'qualified facility' means any facility of the taxpayer.

''(iii) GEOTHERMAL FACILITY.—In the case of a facility using geothermal to produce electricity, the term 'qualified facility' means any facility of the taxpayer which is originally placed in service after December 31, 1992.

''(iv) STEEL COGENERATION FACILITIES.—In the case of a facility using steel cogeneration to produce electricity, the term 'qualified facility' means any facility permitted to operate under the environmental requirements of the Clean Air Act Amendments of 1990 which is owned by the taxpayer and originally placed in service after the date of the enactment of this subparagraph. Such a facility may be treated as originally placed in service when such facility was last upgraded to increase

efficiency or generation capability after such date.

''(v) SPECIAL RULES.—In the case of a qualified facility described in this subparagraph, the 10-year period referred to in subsection (a) shall be treated as beginning no earlier than the date of the enactment of this subparagraph.''.

(4) GOVERNMENT-OWNED FACILITY.—Section 45(d)(6) (relating to credit eligibility in the case of government-owned facilities using poultry waste) is amended—

(A) by inserting ''or alternative resources'' after ''poultry waste'', and

(B) by inserting ''OR ALTERNATIVE RESOURCES'' after ''POULTRY WASTE'' in the heading thereof.

(5) QUALIFIED FACILITIES WITH CO-PRODUCTION.—Section 45(b) (relating to limitations and adjustments) is amended by adding at the end the following:

''(4) INCREASED CREDIT FOR CO-PRODUCTION FACILITIES.—

''(A) IN GENERAL.—In the case of a qualified facility described in subsection (c)(3)(D)(i)

which has a co-production facility or a qualified facility described in subparagraph (A), (B), or (C) of subsection (c)(3) which adds a co-production facility after the date of the enactment of this paragraph, the amount in effect under subsection (a)(1) for an eligible taxable year of a taxpayer shall (after adjustment under paragraph (2) and before adjustment under paragraphs (1) and (3)) be increased by .25 cents.

''(B) CO-PRODUCTION FACILITY.—For purposes of subparagraph (A), the term 'co-production facility' means a facility which—

''(i) enables a qualified facility to produce heat, mechanical power, chemicals, liquid fuels, or minerals from qualified energy resources in addition to electricity, and

''(ii) produces such energy on a continuous basis.

''(C) ELIGIBLE TAXABLE YEAR.—For purposes of subparagraph (A), the term 'eligible taxable year' means any taxable year in which the amount of gross receipts attributable to the co-production facility of a qualified facility are at least 10 percent of the amount of gross re-

ceipts attributable to electricity produced by such facility.''.

(6) QUALIFIED FACILITIES LOCATED WITHIN QUALIFIED INDIAN LANDS.—Section 45(b) (relating to limitations and adjustments), as amended by paragraph (5), is amended by adding at the end the following:

''(5) INCREASED CREDIT FOR QUALIFIED FACILITY LOCATED WITHIN QUALIFIED INDIAN LAND.—In the case of a qualified facility described in subsection (c)(3)(D) which—

''(A) is located within—

''(i) qualified Indian lands (as defined in section 7871(c)(3)), or

''(ii) lands which are held in trust by a Native Corporation (as defined in section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)) for Alaska Natives, and

''(B) is operated with the explicit written approval of the Indian tribal government or Native Corporation (as so defined) having jurisdiction over such lands,

the amount in effect under subsection (a)(1) for a taxable year shall (after adjustment under para-

graphs (2) and (4) and before adjustment under paragraphs (1) and (3)) be increased by .25 cents.''.

(7) ELECTRICITY PRODUCED FROM CERTAIN RESOURCES CO-FIRED IN COAL PLANTS.—Section 45(d) (relating to definitions and special rules) is amended by adding at the end the following:

''(8) SPECIAL RULE FOR ELECTRICITY PRODUCED FROM CERTAIN RESOURCES CO-FIRED IN COAL PLANTS.—In the case of electricity produced from biomass (including closed loop biomass), municipal solid waste, or animal waste, co-fired in a facility which produces electricity from coal—

''(A) subsection (a)(1) shall be applied by substituting '1 cent' for '1.8 cents',

''(B) such facility shall be considered a qualified facility for purposes of this section, and

''(C) the 10-year period referred to in subsection (a) shall be treated as beginning no earlier than the date of the enactment of this paragraph.''.

(8) CONFORMING AMENDMENTS.—

(A) The heading for section 45 is amended by inserting ''**AND WASTE ENERGY**'' after ''**RENEWABLE**''.

(B) The item relating to section 45 in the table of sections subpart D of part IV of subchapter A of chapter 1 is amended by inserting ''and waste energy'' after ''renewable''.

(c) ADDITIONAL MODIFICATIONS OF RENEWABLE AND WASTE ENERGY RESOURCE CREDIT.—

(1) CREDITS FOR CERTAIN TAX EXEMPT ORGANIZATIONS AND GOVERNMENTAL UNITS.—Section 45(d) (relating to definitions and special rules), as amended by subsection (b)(7), is amended by adding at the end the following:

''(9) CREDITS FOR CERTAIN TAX EXEMPT ORGANIZATIONS AND GOVERNMENTAL UNITS.—

''(A) ALLOWANCE OF CREDIT.—Any credit which would be allowable under subsection (a) with respect to a qualified facility of an entity if such entity were not exempt from tax under this chapter shall be treated as a credit allowable under subpart C to such entity if such entity is—

''(i) an organization described in section 501(c)(12)(C) and exempt from tax under section 501(a),

''(ii) an organization described in section 1381(a)(2)(C), or

"(iii) an entity the income of which is excludable from gross income under section 115.

"(B) USE OF CREDIT.—

"(i) TRANSFER OF CREDIT.—An entity described in subparagraph (A) may assign, trade, sell, or otherwise transfer any credit allowable to such entity under subparagraph (A) to any taxpayer.

"(ii) USE OF CREDIT AS AN OFFSET.—Notwithstanding any other provision of law, in the case of an entity described in clause (i) or (ii) of subparagraph (A), any credit allowable to such entity under subparagraph (A) may be applied by such entity, without penalty, as a prepayment of any loan, debt, or other obligation the entity has incurred under subchapter I of chapter 31 of title 7 of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.).

"(C) CREDIT NOT INCOME.—Neither a transfer under clause (i) or a use under clause (ii) of subparagraph (B) of any credit allowable

under subparagraph (A) shall result in income for purposes of section 501(c)(12).

''(D) TRANSFER PROCEEDS TREATED AS ARISING FROM ESSENTIAL GOVERNMENT FUNCTION.—Any proceeds derived by an entity described in subparagraph (A)(iii) from the transfer of any credit under subparagraph (B)(i) shall be treated as arising from an essential government function.

''(E) CREDITS NOT REDUCED BY TAX-EXEMPT BONDS OR CERTAIN OTHER SUBSIDIES.—Subsection (b)(3) shall not apply to reduce any credit allowable under subparagraph (A) with respect to—

''(i) proceeds described in subparagraph (A)(ii) of such subsection, or

''(ii) any loan, debt, or other obligation incurred under subchapter I of chapter 31 of title 7 of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.),

used to provide financing for any qualified facility.

''(F) TREATMENT OF UNRELATED PERSONS.—For purposes of this paragraph, sales among and between entities described in sub-

paragraph (A) shall be treated as sales between unrelated parties.''.

(2) COORDINATION WITH OTHER CREDITS.—Section 45(d), as amended by paragraph (1), is amended by adding at the end the following:

''(10) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any qualified facility with respect to which a credit under any other section is allowed for the taxable year unless the taxpayer elects to waive the application of such credit to such facility.''.

(3) EXPANSION TO INCLUDE ANIMAL WASTE.—Section 45 (relating to electricity produced from certain renewable resources), as amended by paragraphs (2) and (4) of subsection (b), is amended—

(A) by striking ''poultry'' each place it appears in subsection (c)(1)(C) and subsection (d)(6) and inserting ''animal'',

(B) by striking ''POULTRY'' in the heading of paragraph (6) of subsection (d) and inserting ''ANIMAL'',

(C) by striking paragraph (3) of subsection (c) and inserting the following:

''(3) ANIMAL WASTE.—The term 'animal waste' means poultry manure and litter and other animal wastes, including—

''(A) wood shavings, straw, rice hulls, and other bedding material for the disposition of manure, and

''(B) byproducts, packaging, and other materials which are nontoxic and biodegradable and are associated with the processing, feeding, selling, transporting, and disposal of such animal wastes.'', and

(D) by striking subparagraph (C) of subsection (c)(5) and inserting the following:

''(C) ANIMAL WASTE FACILITY.—

''(i) IN GENERAL.—Except as provided in clause (ii), in the case of a facility using animal waste (other than poultry) to produce electricity, the term 'qualified facility' means any facility of the taxpayer which is originally placed in service after the date of the enactment of this clause.

''(ii) POULTRY WASTE.—In the case of a facility using animal waste relating to poultry to produce electricity, the term 'qualified facility' means any facility of the

taxpayer which is originally placed in service after December 31, 1999.''.

(4) TREATMENT OF QUALIFIED FACILITIES NOT IN COMPLIANCE WITH POLLUTION LAWS.—Section 45(c)(5) (relating to qualified facilities), as amended by paragraphs (2) and (3) of subsection (b), is amended by adding at the end the following:

''(E) NONCOMPLIANCE WITH POLLUTION LAWS.—For purposes of this paragraph, a facility which is not in compliance with the applicable State and Federal pollution prevention, control, and permit requirements for any period of time shall not be considered to be a qualified facility during such period.''.

(5) PERMANENT EXTENSION OF QUALIFIED FACILITY DATES.—Section 45(c)(5) (relating to qualified facility), as redesignated by subsection (b)(2), is amended by striking '', and before January 1, 2002'' in subparagraphs (A) and (B).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity and other energy produced after the date of the enactment of this Act.

SEC. 303. TREATMENT OF FACILITIES USING BAGASSE TO PRODUCE ENERGY AS SOLID WASTE DISPOSAL FACILITIES ELIGIBLE FOR TAX-EXEMPT FINANCING.

(a) IN GENERAL.—Section 142 (relating to exempt facility bond) is amended by adding at the end the following:

''(k) SOLID WASTE DISPOSAL FACILITIES.—For purposes of subsection (a)(6), the term 'solid waste disposal facilities' includes property located in Hawaii and used for the collection, storage, treatment, utilization, processing, or final disposal of bagasse in the manufacture of ethanol.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to bonds issued after the date of the enactment of this Act.

SEC. 304. DEPRECIATION OF PROPERTY USED IN THE TRANSMISSION OF ELECTRICITY.

(a) DEPRECIATION OF PROPERTY USED IN THE TRANSMISSION OF ELECTRICITY.—

(1) IN GENERAL.—Subparagraph (C) of section 168(e)(3) (relating to 7-year property), as amended by section 301(a)(1), is amended by striking ''and'' at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following:

''(iii) any property used in the transmission of electricity, and''.

(2) 10-YEAR CLASS LIFE.—The table contained in section 168(g)(3)(B), as amended by section 301(a)(2), is amended by inserting after the item relating to subparagraph (C)(ii) the following:

''(C)(iii) ..... 10''.

(b) DEFINITION OF PROPERTY USED IN THE TRANSMISSION OF ELECTRICITY.—Section 168(i), as amended by section 301(b), is amended by adding at the end the following:

''(16) PROPERTY USED IN THE TRANSMISSION OF ELECTRICITY.—The term 'property used in the transmission of electricity' means property used in the transmission of electricity for sale.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

TITLE IV—INCENTIVES FOR EARLY COMMERCIAL APPLICATIONS OF ADVANCED CLEAN COAL TECHNOLOGIES

SEC. 401. CREDIT FOR INVESTMENT IN QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.

(a) ALLOWANCE OF QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY CREDIT.—Section 46 (re-

lating to amount of credit) is amended by striking ''and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting '', and'', and by adding at the end the following:

''(4) the qualifying advanced clean coal technology facility credit.''.

(b) AMOUNT OF QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY CREDIT.—Subpart E of part IV of subchapter A of chapter 1 (relating to rules for computing investment credit), as amended by section 101(a), is amended by inserting after section 48A the following:

''SEC. 48B. QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY CREDIT.

''(a) IN GENERAL.—For purposes of section 46, the qualifying advanced clean coal technology facility credit for any taxable year is an amount equal to 10 percent of the qualified investment in a qualifying advanced clean coal technology facility for such taxable year.

''(b) QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY.—

''(1) IN GENERAL.—For purposes of subsection (a), the term 'qualifying advanced clean coal technology facility' means a facility of the taxpayer which—

"(A)(i)(I) replaces a conventional technology facility of the taxpayer and the original use of which commences with the taxpayer, or

"(II) is a retrofitted or repowered conventional technology facility, the retrofitting or repowering of which is completed by the taxpayer (but only with respect to that portion of the basis which is properly attributable to such retrofitting or repowering), or

"(ii) is acquired through purchase (as defined by section 179(d)(2)),

"(B) is depreciable under section 167,

"(C) has a useful life of not less than 4 years,

"(D) is located in the United States, and

"(E) uses qualifying advanced clean coal technology.

"(2) SPECIAL RULE FOR SALE-LEASEBACKS.—For purposes of subparagraph (A) of paragraph (1), in the case of a facility which—

"(A) is originally placed in service by a person, and

"(B) is sold and leased back by such person, or is leased to such person, within 3 months after the date such facility was origi-

nally placed in service, for a period of not less than 12 years,

such facility shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback (or lease) referred to in subparagraph (B). The preceding sentence shall not apply to any property if the lessee and lessor of such property make an election under this sentence. Such an election, once made, may be revoked only with the consent of the Secretary.

''(3) QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.—For purposes of paragraph (1)—

''(A) IN GENERAL.—The term 'qualifying advanced clean coal technology' means, with respect to clean coal technology—

''(i) multiple applications, with a combined capacity of not more than 2,000 megawatts, of advanced pulverized coal or atmospheric fluidized bed combustion technology—

''(I) installed as a new, retrofit, or repowering application,

''(II) operated between 2001 and 2011, and

''(III) with a design net heat rate of not more than 9,500 Btu per kilowatt hour when the design coal has a heat content of more than 8,000 Btu per pound, or a design net heat rate of not more than 9,900 Btu per kilowatt hour when the design coal has a heat content of 8,000 Btu per pound or less,

''(ii) multiple applications, with a combined capacity of not more than 1,000 megawatts, of pressurized fluidized bed combustion technology—

''(I) installed as a new, retrofit, or repowering application,

''(II) operated between 2001 and 2015, and

''(III) with a design net heat rate of not more than 8,400 Btu per kilowatt hour when the design coal has a heat content of more than 8,000 Btu per pound, or a design net heat rate of not more than 9,900 Btu per kilowatt hour when the design coal has a

heat content of 8,000 Btu per pound or less,

''(iii) multiple applications, with a combined capacity of not more than 5,000 megawatts, of integrated gasification combined cycle technology, with or without fuel or chemical co-production—

''(I) installed as a new, retrofit, or repowering application,

''(II) operated between 2001 and 2015,

''(III) with a design net heat rate of not more than 8,550 Btu per kilowatt hour when the design coal has a heat content of more than 8,000 Btu per pound, or a design net heat rate of not more than 9,900 Btu per kilowatt hour when the design coal has a heat content of 8,000 Btu per pound or less, and

''(IV) with a net thermal efficiency on any fuel or chemical co-production of not less than 39 percent (higher heating value), and

''(iv) multiple applications, with a combined capacity of not more than 2,000 megawatts of technology for the production of electricity—

''(I) installed as a new, retrofit, or repowering application,

''(II) operated between 2001 and 2015, and

''(III) with a carbon emission rate which is not more than 85 percent of conventional technology.

''(B) EXCEPTIONS.—Such term shall not include clean coal technology projects receiving or scheduled to receive funding under the Clean Coal Technology Program of the Department of Energy.

''(C) CLEAN COAL TECHNOLOGY.—The term 'clean coal technology' means advanced technology which uses coal to produce 75 percent or more of its thermal output as electricity including advanced pulverized coal or atmospheric fluidized bed combustion, pressurized fluidized bed combustion, integrated gasification combined cycle with or without fuel or chemical co-production, and any other technology for the

production of electricity which exceeds the performance of conventional technology.

"(D) CONVENTIONAL TECHNOLOGY.—The term 'conventional technology' means—

"(i) coal-fired combustion technology with a design net heat rate of not less than 9,500 Btu per kilowatt hour (HHV) and a carbon equivalents emission rate of not more than 0.54 pounds of carbon per kilowatt hour when the design coal has a heat content of more than 8,000 Btu per pound,

"(ii) coal-fired combustion technology with a design net heat rate of not less than 10,500 Btu per kilowatt hour (HHV) and a carbon equivalents emission rate of not more than 0.60 pounds of carbon per kilowatt hour when the design coal has a heat content of 8,000 Btu per pound or less, or

"(iii) natural gas-fired combustion technology with a design net heat rate of not less than 7,500 Btu per kilowatt hour (HHV) and a carbon equivalents emission rate of not more than 0.24 pounds of carbon per kilowatt hour.

''(E) DESIGN NET HEAT RATE.—The design net heat rate shall be based on the design annual heat input to and the design annual net electrical output from the qualifying advanced clean coal technology (determined without regard to such technology's co-generation of steam).

''(F) SELECTION CRITERIA.—Selection criteria for clean coal technology facilities—

''(i) shall be established by the Secretary of Energy as part of a competitive solicitation,

''(ii) shall include primary criteria of minimum design net heat rate, maximum design thermal efficiency, and lowest cost to the government, and

''(iii) shall include supplemental criteria as determined appropriate by the Secretary of Energy.

''(4) NONCOMPLIANCE WITH POLLUTION LAWS.—For purposes of this subsection, a facility which is not in compliance with the applicable State and Federal pollution prevention, control, and permit requirements for any period of time shall not be

considered to be a qualifying advanced clean coal technology facility during such period.

''(c) QUALIFIED INVESTMENT.—For purposes of subsection (a), the term 'qualified investment' means, with respect to any taxable year, the basis of a qualifying advanced clean coal technology facility placed in service by the taxpayer during such taxable year.

''(d) QUALIFIED PROGRESS EXPENDITURES.—

''(1) INCREASE IN QUALIFIED INVESTMENT.—In the case of a taxpayer who has made an election under paragraph (5), the amount of the qualified investment of such taxpayer for the taxable year (determined under subsection (c) without regard to this section) shall be increased by an amount equal to the aggregate of each qualified progress expenditure for the taxable year with respect to progress expenditure property.

''(2) PROGRESS EXPENDITURE PROPERTY DEFINED.—For purposes of this subsection, the term 'progress expenditure property' means any property being constructed by or for the taxpayer and which it is reasonable to believe will qualify as a qualifying advanced clean coal technology facility which is being constructed by or for the taxpayer when it is placed in service.

''(3) QUALIFIED PROGRESS EXPENDITURES DEFINED.—For purposes of this subsection—

''(A) SELF-CONSTRUCTED PROPERTY.—In the case of any self-constructed property, the term 'qualified progress expenditures' means the amount which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such property.

''(B) NONSELF-CONSTRUCTED PROPERTY.—In the case of nonself-constructed property, the term 'qualified progress expenditures' means the amount paid during the taxable year to another person for the construction of such property.

''(4) OTHER DEFINITIONS.—For purposes of this subsection—

''(A) SELF-CONSTRUCTED PROPERTY.—The term 'self-constructed property' means property for which it is reasonable to believe that more than half of the construction expenditures will be made directly by the taxpayer.

''(B) NONSELF-CONSTRUCTED PROPERTY.—The term 'nonself-constructed property'

means property which is not self-constructed property.

"(C) CONSTRUCTION, ETC.—The term 'construction' includes reconstruction and erection, and the term 'constructed' includes reconstructed and erected.

"(D) ONLY CONSTRUCTION OF QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY TO BE TAKEN INTO ACCOUNT.—Construction shall be taken into account only if, for purposes of this subpart, expenditures therefor are properly chargeable to capital account with respect to the property.

"(5) ELECTION.—An election under this subsection may be made at such time and in such manner as the Secretary may by regulations prescribe. Such an election shall apply to the taxable year for which made and to all subsequent taxable years. Such an election, once made, may not be revoked except with the consent of the Secretary.

"(e) CREDITS FOR CERTAIN TAX EXEMPT ORGANIZATIONS AND GOVERNMENTAL UNITS.—

"(1) ALLOWANCE OF CREDIT.—Any credit which would be allowable under subsection (a) with respect to a qualifying advanced clean coal tech-

nology facility of an entity if such entity were not exempt from tax under this chapter shall be treated as a credit allowable under subpart C to such entity if such entity is—

"(A) an organization described in section 501(c)(12)(C) and exempt from tax under section 501(a),

"(B) an organization described in section 1381(a)(2)(C),

"(C) an entity the income of which is excludable from gross income under section 115, or

"(D) the Tennessee Valley Authority.

"(2) USE OF CREDIT.—

"(A) TRANSFER OF CREDIT.—An entity described in subparagraph (A), (B), or (C) of paragraph (1) may assign, trade, sell, or otherwise transfer any credit allowable to such entity under paragraph (1) to any taxpayer.

"(B) USE OF CREDIT AS AN OFFSET.—Notwithstanding any other provision of law, in the case of an entity described in subparagraph (A) or (B) of paragraph (1), any credit allowable to such entity under paragraph (1) may be applied by such entity, without penalty, as a

prepayment of any loan, debt, or other obligation the entity has incurred under subchapter I of chapter 31 of title 7 of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.).

"(C) USE BY TVA.—

"(i) IN GENERAL.—Notwithstanding any other provision of law, in the case of an entity described in paragraph (1)(D), any credit allowable under paragraph (1) to such entity may be applied as a credit against the payments required to be made in any fiscal year under section 15d(e) of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831n–4(e)) as an annual return on the appropriations investment and an annual repayment sum.

"(ii) TREATMENT OF CREDITS.—The aggregate amount of credits described in paragraph (1) shall be treated in the same manner and to the same extent as if such credits were a payment in cash and shall be applied first against the annual return on the appropriations investment.

"(iii) CREDIT CARRYOVER.—With respect to any fiscal year, if the aggregate

amount of credits described in paragraph (1) exceeds the aggregate amount of payment obligations described in clause (i), the excess amount shall remain available for application as credits against the amounts of such payment obligations in succeeding fiscal years in the same manner as described in this subparagraph.

''(3) CREDIT NOT INCOME.—Neither a transfer under subparagraph (A) or a use under subparagraph (B) of paragraph (2) of any credit allowable under paragraph (1) shall result in income for purposes of section 501(c)(12).

''(4) TRANSFER PROCEEDS TREATED AS ARISING FROM ESSENTIAL GOVERNMENT FUNCTION.—Any proceeds derived by an entity described in paragraph (1)(C) from the transfer of any credit under paragraph (2)(A) shall be treated as arising from an essential government function.

''(f) COORDINATION WITH OTHER CREDITS.—This section shall not apply to any property with respect to which the rehabilitation credit under section 47 or the energy credit under section 48A is allowed unless the taxpayer elects to waive the application of such credit to such property.

''(g) TERMINATION.—This section shall not apply with respect to any qualified investment made more than 10 years after the effective date of this section.''.

(c) RECAPTURE.—Section 50(a) (relating to other special rules) is amended by adding at the end the following:

''(6) SPECIAL RULES RELATING TO QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY FACILITY.—For purposes of applying this subsection in the case of any credit allowable by reason of section 48B, the following shall apply:

''(A) GENERAL RULE.—In lieu of the amount of the increase in tax under paragraph (1), the increase in tax shall be an amount equal to the investment tax credit allowed under section 38 for all prior taxable years with respect to a qualifying advanced clean coal technology facility (as defined by section 48B(b)(1)) multiplied by a fraction whose numerator is the number of years remaining to fully depreciate under this title the qualifying advanced clean coal technology facility disposed of, and whose denominator is the total number of years over which such facility would otherwise have been subject to depreciation. For purposes of the

preceding sentence, the year of disposition of the qualifying advanced clean coal technology facility property shall be treated as a year of remaining depreciation.

''(B) PROPERTY CEASES TO QUALIFY FOR PROGRESS EXPENDITURES.—Rules similar to the rules of paragraph (2) shall apply in the case of qualified progress expenditures for a qualifying advanced clean coal technology facility under section 48B, except that the amount of the increase in tax under subparagraph (A) of this paragraph shall be substituted in lieu of the amount described in such paragraph (2).

''(C) APPLICATION OF PARAGRAPH.—This paragraph shall be applied separately with respect to the credit allowed under section 38 regarding a qualifying advanced clean coal technology facility.''.

(d) TRANSITIONAL RULE.—Section 39(d) of the Internal Revenue Code of 1986 (relating to transitional rules), as amended by section 201(e), is amended by adding at the end the following:

''(13) NO CARRYBACK OF SECTION 48B CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is

attributable to the qualifying advanced clean coal technology facility credit determined under section 48B may be carried back to a taxable year ending before January 1, 2002.''.

(e) TECHNICAL AMENDMENTS.—

(1) Section 49(a)(1)(C) is amended by striking ''and'' at the end of clause (ii), by striking the period at the end of clause (iii) and inserting '', and'', and by adding at the end the following:

''(iv) the portion of the basis of any qualifying advanced clean coal technology facility attributable to any qualified investment (as defined by section 48B(c)).''.

(2) Section 50(a)(4) is amended by striking ''and (2)'' and inserting ''(2), and (6)''.

(3) Section 50(c) is amended by adding at the end the following:

''(6) NONAPPLICATION.—Paragraphs (1) and (2) shall not apply to any advanced clean coal technology facility credit under section 48B.''.

(4) The table of sections for subpart E of part IV of subchapter A of chapter 1, as amended by section 101(c), is amended by inserting after the item relating to section 48A the following:

''Sec. 48B. Qualifying advanced clean coal technology facility credit.''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to periods after December 31, 2001, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 402. CREDIT FOR PRODUCTION FROM QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.

(a) CREDIT FOR PRODUCTION FROM QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to business related credits), as amended by section 201(a), is amended by adding at the end the following:

"SEC. 45G. CREDIT FOR PRODUCTION FROM QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.

''(a) GENERAL RULE.—For purposes of section 38, the qualifying advanced clean coal technology production credit of any taxpayer for any taxable year is equal to—

''(1) the applicable amount of advanced clean coal technology production credit, multiplied by

''(2) the sum of—

''(A) the kilowatt hours of electricity, plus

''(B) each 3,413 Btu of fuels or chemicals,

produced by the taxpayer during such taxable year at a qualifying advanced clean coal technology facility during the 10-year period beginning on the date the facility was originally placed in service.

''(b) APPLICABLE AMOUNT.—For purposes of this section, the applicable amount of advanced clean coal technology production credit with respect to production from a qualifying advanced clean coal technology facility shall be determined as follows:

''(1) Where the design coal has a heat content of more than 8,000 Btu per pound:

''(A) In the case of a facility originally placed in service before 2008, if—

''The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,400	$.0050	$.0030
More than 8,400 but not more than 8,550	$.0010	$.0010
More than 8,550 but not more than 8,750	$.0005	$.0005.

''(B) In the case of a facility originally placed in service after 2007 and before 2012, if—

''The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,770	$.0090	$.0075
More than 7,770 but not more than 8,125	$.0070	$.0050
More than 8,125 but not more than 8,350	$.0060	$.0040.

"(C) In the case of a facility originally placed in service after 2011 and before 2015, if—

"The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,380	$.0120	$.0090
More than 7,380 but not more than 7,720	$.0095	$.0070.

"(2) Where the design coal has a heat content of not more than 8,000 Btu per pound:

"(A) In the case of a facility originally placed in service before 2008, if—

"The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,500	$.0050	$.0030
More than 8,500 but not more than 8,650	$.0010	$.0010
More than 8,650 but not more than 8,750	$.0005	$.0005.

"(B) In the case of a facility originally placed in service after 2007 and before 2012, if—

"The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,000	$.0090	$.0075
More than 8,000 but not more than 8,250	$.0070	$.0050
More than 8,250 but not more than 8,400	$.0060	$.0040.

"(C) In the case of a facility originally placed in service after 2011 and before 2015, if—

"The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,800	$.0120	$.0090

"The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
More than 7,800 but not more than 7,950	$.0095	$.0070.

"(3) Where the clean coal technology facility is producing fuel or chemicals:

"(A) In the case of a facility originally placed in service before 2008, if—

"The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 40.6 percent	$.0050	$.0030
Less than 40.6 but not less than 40 percent	$.0010	$.0010
Less than 40 but not less than 39 percent	$.0005	$.0005.

"(B) In the case of a facility originally placed in service after 2007 and before 2012, if—

"The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 43.9 percent	$.0090	$.0075
Less than 43.9 but not less than 42 percent	$.0070	$.0050
Less than 42 but not less than 40.9 percent	$.0060	$.0040.

"(C) In the case of a facility originally placed in service after 2011 and before 2015, if—

"The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 44.2 percent	$.0120	$.0090
Less than 44.2 but not less than 43.6 percent	$.0095	$.0070.

"(c) INFLATION ADJUSTMENT FACTOR.—For calendar years after 2001, each amount in paragraphs (1),

(2), and (3) shall be adjusted by multiplying such amount by the inflation adjustment factor for the calendar year in which the amount is applied. If any amount as increased under the preceding sentence is not a multiple of 0.01 cent, such amount shall be rounded to the nearest multiple of 0.01 cent.

''(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

''(1) IN GENERAL.—Any term used in this section which is also used in section 48B shall have the meaning given such term in section 48B.

''(2) APPLICABLE RULES.—The rules of paragraphs (3), (4), and (5) of section 45(d) and section 48B(e) shall apply.

''(3) INFLATION ADJUSTMENT FACTOR.—The term 'inflation adjustment factor' means, with respect to a calendar year, a fraction the numerator of which is the GDP implicit price deflator for the preceding calendar year and the denominator of which is the GDP implicit price deflator for the calendar year 2000.

''(4) GDP IMPLICIT PRICE DEFLATOR.—The term 'GDP implicit price deflator' means the most recent revision of the implicit price deflator for the gross domestic product as computed by the Depart-

ment of Commerce before March 15 of the calendar year.''.

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 201(b), is amended by striking ''plus'' at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting '', plus'', and by adding at the end the following:

''(16) the qualifying advanced clean coal technology production credit determined under section 45G(a).''.

(c) TRANSITIONAL RULE.—Section 39(d) (relating to transitional rules), as amended by section 401(d), is amended by adding at the end the following:

''(14) NO CARRYBACK OF SECTION 45G CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the qualifying advanced clean coal technology production credit determined under section 45G may be carried back to a taxable year ending before the date of the enactment of section 45G.''.

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 201(g), is amended by adding at the end the following:

''Sec. 45G. Credit for production from qualifying advanced clean coal technology.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

SEC. 403. RISK POOL FOR QUALIFYING ADVANCED CLEAN COAL TECHNOLOGY.

(a) ESTABLISHMENT.—The Secretary of the Treasury shall establish a financial risk pool which shall be available to any United States owner of a qualifying advanced clean coal technology which has qualified for an advanced clean coal technology production credit (as defined in section 45G of the Internal Revenue Code of 1986, as added by section 402) to offset for the first 3 years of the operation of such technology the costs (not to exceed 5 percent of the total cost of installation) for modifications resulting from the technology's failure to achieve its design performance.

(b) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated such sums as are necessary to carry out the purposes of this section.

TITLE V—HEATING FUELS AND STORAGE.

SEC. 501. FULL EXPENSING OF HOME HEATING OIL AND PROPANE STORAGE FACILITIES.

(a) IN GENERAL.—Section 179(b) (relating to limitations) is amended by adding at the end the following:

''(5) FULL EXPENSING OF HOME HEATING OIL AND PROPANE STORAGE FACILITIES.—Paragraphs (1) and (2) shall not apply to section 179 property which is any storage facility (not including a building or its structural components) used in connection with the distribution of home heating oil or liquefied petroleum gas.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service on or after the date of the enactment of this Act.

SEC. 502. ARBITRAGE RULES NOT TO APPLY TO PREPAYMENTS FOR NATURAL GAS AND OTHER COMMODITIES.

(a) IN GENERAL.—Subsection (b) of section 148 (defining higher yielding investments) is amended by adding at the end the following:

''(4) INVESTMENT PROPERTY NOT TO INCLUDE CERTAIN PREPAYMENTS TO ENSURE COMMODITY SUPPLY.—The term 'investment property' shall not

include a prepayment entered into for the purpose of obtaining a supply of a commodity reasonably expected to be used in a business of one or more utilities each of which is owned and operated by a State or local government, any political subdivision or instrumentality thereof, or any governmental unit acting for or on behalf of such a utility.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to obligations issued after the date of the enactment of this Act.

SEC. 503. PRIVATE LOAN FINANCING TEST NOT TO APPLY TO PREPAYMENTS FOR NATURAL GAS AND OTHER COMMODITIES.

(a) IN GENERAL.—Section 141(c)(2) (providing exceptions to the private loan financing test) is amended by striking ''or'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', or'', and by adding at the end the following:

''(C) arises from a transaction described in section 148(b)(4).''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.

TITLE VI—OIL AND GAS PRODUCTION

SEC. 601. CREDIT FOR PRODUCTION OF RE-REFINED LUBRICATING OIL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 402(a), is amended by adding at the end the following:

"SEC. 45H. CREDIT FOR PRODUCING RE-REFINED LUBRICATING OIL.

''(a) GENERAL RULE.—For purposes of section 38, the re-refined lubricating oil production credit of any taxpayer for any taxable year is equal to $4.05 per barrel of qualified re-refined lubricating oil production which is attributable to the taxpayer (within the meaning of section 29(d)(3)).

''(b) QUALIFIED RE-REFINED LUBRICATING OIL PRODUCTION.—For purposes of this section—

''(1) IN GENERAL.—The term 'qualified re-refined lubricating oil production' means a base oil manufactured from at least 95 percent used oil and not more than 2 percent of previously unused oil by a re-refining process at a qualified facility which effectively removes physical and chemical impurities and spent and unspent additives to the extent that

such base oil meets industry standards for engine oil as defined by the American Petroleum Institute document API 1509 as in effect on the date of the enactment of this section.

''(2) LIMITATION ON AMOUNT OF PRODUCTION WHICH MAY QUALIFY.—Re-refined lubricating oil produced during any taxable year shall not be treated as qualified re-refined lubricating oil production but only to the extent average daily production during the taxable year exceeds 7,000 barrels.

''(3) BARREL.—The term 'barrel' has the meaning given such term by section 613A(e)(4).

''(4) NONCOMPLIANCE WITH POLLUTION LAWS.—For purposes of paragraph (1), a facility which is not in compliance with the applicable State and Federal pollution prevention, control, and permit requirements for any period of time shall not be considered to be a qualified facility during such period.

''(c) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2001, the dollar amount contained in subsection (a) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar

year (determined under section 29(d)(2)(B) by substituting '2000' for '1979').''.

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b) (relating to current year business credit), as amended by section 402(b), is amended by striking 'plus' at the end of paragraph (15), by striking the period at the end of paragraph (16), and inserting ', plus', and by adding at the end the following:

''(17) the re-refined lubricating oil production credit determined under section 45H(a).''.

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 402(d), is amended by adding at the end the following:

''Sec. 45H. Credit for producing re-refined lubricating oil.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

SEC. 602. OIL AND GAS FROM MARGINAL WELLS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business credits), as amended by section 601(a), is amended by adding at the end the following:

"SEC. 45I. CREDIT FOR PRODUCING OIL AND GAS FROM MARGINAL WELLS.

"(a) GENERAL RULE.—For purposes of section 38, the marginal well production credit for any taxable year is an amount equal to the product of—

"(1) the credit amount, and

"(2) the qualified credit oil production and the qualified natural gas production which is attributable to the taxpayer.

"(b) CREDIT AMOUNT.—For purposes of this section—

"(1) IN GENERAL.—The credit amount is—

"(A) $3 per barrel of qualified crude oil production, and

"(B) 50 cents per 1,000 cubic feet of qualified natural gas production.

"(2) REDUCTION AS OIL AND GAS PRICES INCREASE.—

"(A) IN GENERAL.—The $3 and 50 cents amounts under paragraph (1) shall each be reduced (but not below zero) by an amount which bears the same ratio to such amount (determined without regard to this paragraph) as—

"(i) the excess (if any) of the applicable reference price over $14 ($1.56 for qualified natural gas production), bears to

''(ii) $3 ($0.33 for qualified natural gas production).

The applicable reference price for a taxable year is the reference price of the calendar year preceding the calendar year in which the taxable year begins.

''(B) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2001, each of the dollar amounts contained in subparagraph (A) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting '2000' for '1990').

''(C) REFERENCE PRICE.—For purposes of this paragraph, the term 'reference price' means, with respect to any calendar year—

''(i) in the case of qualified crude oil production, the reference price determined under section 29(d)(2)(C), and

''(ii) in the case of qualified natural gas production, the Secretary's estimate of the annual average wellhead price per

1,000 cubic feet for all domestic natural gas.

''(c) QUALIFIED CRUDE OIL AND NATURAL GAS PRODUCTION.—For purposes of this section—

''(1) IN GENERAL.—The terms 'qualified crude oil production' and 'qualified natural gas production' mean domestic crude oil or natural gas which is produced from a qualified marginal well.

''(2) LIMITATION ON AMOUNT OF PRODUCTION WHICH MAY QUALIFY.—

''(A) IN GENERAL.—Crude oil or natural gas produced during any taxable year from any well shall not be treated or qualified crude oil production or qualified natural gas production to the extent production from the well during the taxable year exceeds 1,095 barrels or barrel equivalents.

''(B) PROPORTIONATE REDUCTIONS.—

''(i) SHORT TAXABLE YEARS.—In the case of a short taxable year, the limitations under this paragraph shall be proportionately reduced to reflect the ratio which the number of days in such taxable year bears to 365.

''(ii) WELLS NOT IN PRODUCTION ENTIRE YEAR.—In the case of a well which is not capable of production during each day of a taxable year, the limitations under this paragraph applicable to the well shall be proportionately reduced to reflect the ratio which the number of days of production bears to the total number of days in the taxable year.

''(3) DEFINITIONS.—

''(A) QUALIFIED MARGINAL WELL.—The term 'qualified marginal well' means a domestic well—

''(i) the production from which during the taxable year is treated as marginal production under section 613A(c)(6), or

''(ii) which, during the taxable year—

''(I) has average daily production of not more than 25 barrel equivalents, and

''(II) produces water at a rate not less than 95 percent of total well effluent.

''(B) CRUDE OIL, ETC.—The terms 'crude oil', 'natural gas', 'domestic', and 'barrel' have

the meanings given such terms by section 613A(e).

''(C) BARREL EQUIVALENT.—The term 'barrel equivalent' means, with respect to natural gas, a conversation ratio of 6,000 cubic feet of natural gas to 1 barrel of crude oil.

''(d) OTHER RULES.—

''(1) PRODUCTION ATTRIBUTABLE TO THE TAXPAYER.—In the case of a qualified marginal well in which there is more than one owner of operating interests in the well and the crude oil or natural gas production exceeds the limitation under subsection (c)(2), qualifying crude oil production or qualifying natural gas production attributable to the taxpayer shall be determined on the basis of the ratio which taxpayer's revenue interest in the production bears to the aggregate of the revenue interests of all operating interest owners in the production.

''(2) OPERATING INTEREST REQUIRED.—Any credit under this section may be claimed only on production which is attributable to the holder of an operating interest.

''(3) PRODUCTION FROM NONCONVENTIONAL SOURCES EXCLUDED.—In the case of production from a qualified marginal well which is eligible for

the credit allowed under section 29 for the taxable year, no credit shall be allowable under this section unless the taxpayer elects not to claim the credit under section 29 with respect to the well.

''(4) NONCOMPLIANCE WITH POLLUTION LAWS.—For purposes of subsection (c)(3)(A), a marginal well which is not in compliance with the applicable State and Federal pollution prevention, control, and permit requirements for any period of time shall not be considered to be a qualified marginal well during such period.''.

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 601(b), is amended by striking 'plus' at the end of paragraph (16), by striking the period at the end of paragraph (17) and inserting '', plus'', and by adding at the end the following:

''(18) the marginal oil and gas well production credit determined under section 45I(a).''.

(c) CREDIT ALLOWED AGAINST REGULAR AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax), as amended by section 201(d)(1), is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following:

''(4) SPECIAL RULES FOR MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—

''(A) IN GENERAL.—In the case of the marginal oil and gas well production credit—

''(i) this section and section 39 shall be applied separately with respect to the credit, and

''(ii) in applying paragraph (1) to the credit—

''(I) subparagraphs (A) and (B) thereof shall not apply, and

''(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the marginal oil and gas well production credit).

''(B) MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—For purposes of this subsection, the term 'marginal oil and gas well production credit' means the credit allowable under subsection (a) by reason of section 45I(a).''.

(2) CONFORMING AMENDMENTS.—Subclause (II) of section 38(c)(2)(A)(ii), as amended by section 201(d)(2), and subclause (II) of section

38(c)(3)(A)(ii), as added by section 201(d)(1), are each amended by inserting ''or the marginal oil and gas well production credit'' after ''home credit''.

(d) CARRYBACK.—Subsection (a) of section 39 (relating to carryback and carryforward of unused credits generally) is amended by adding at the end the following:

''(3) 10-YEAR CARRYBACK FOR MARGINAL OIL AND GAS WELL PRODUCTION CREDIT.—In the case of the marginal oil and gas well production credit—

''(A) this section shall be applied separately from the business credit (other than the marginal oil and gas well production credit),

''(B) paragraph (1) shall be applied by substituting '10 taxable years' for '1 taxable years' in subparagraph (A) thereof, and

''(C) paragraph (2) shall be applied—

''(i) by substituting '31 taxable years' for '21 taxable years' in subparagraph (A) thereof, and

''(ii) by substituting '30 taxable years' for '20 taxable years' in subparagraph (A) thereof.''.

(e) COORDINATION WITH SECTION 29.—Section 29(a) is amended by striking ''There'' and inserting ''At the election of the taxpayer, there''.

(f) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter I, as amended by section 601(c), is amended by adding at the end the following:

''Sec. 45I. Credit for producing oil and gas from marginal wells.''.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to production in taxable years beginning after December 31, 2001.

SEC. 603. DEDUCTION FOR DELAY RENTAL PAYMENTS.

(a) IN GENERAL.—Section 263 (relating to capital expenditures) is amended by adding at the end the following:

''(j) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL AND GAS WELLS.—

''(1) IN GENERAL.—Notwithstanding subsection (a), a taxpayer may elect to treat delay rental payments incurred in connection with the development of oil or gas within the United States (as defined in section 638) as payments which are not chargeable to capital account. Any payments so treated shall be allowed as a deduction in the taxable year in which paid or incurred.

''(2) DELAY RENTAL PAYMENTS.—For purposes of paragraph (1), the term 'delay rental payment' means an amount paid for the privilege of deferring

development of an oil or gas well under an oil or gas lease.''.

(b) CONFORMING AMENDMENT.—Section 263A(c)(3) is amended by inserting ''263(j),'' after '263(i),'.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2001.

SEC. 604. ELECTION TO EXPENSE GEOLOGICAL AND GEOPHYSICAL EXPENDITURES.

(a) IN GENERAL.—Section 263 (relating to capital expenditures), as amended by section 603(a), is amended by adding at the end the following:

''(k) GEOLOGICAL AND GEOPHYSICAL EXPENDITURES FOR DOMESTIC OIL AND GAS WELLS.—Notwithstanding subsection (a), a taxpayer may elect to treat geological and geophysical expenses incurred in connection with the exploration for, or development of, oil or gas within the United States (as defined in section 638) as expenses which are not chargeable to capital account. Any expenses so treated shall be allowed as a deduction in the taxable year in which paid or incurred.''.

(b) CONFORMING AMENDMENT.—Section 263A(c)(3), as amended by section 603(b), is amended by inserting ''263(k),'' after ''263(j),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred in taxable years beginning after December 31, 2001.

SEC. 605. GAS PIPELINES TREATED AS 7-YEAR PROPERTY.

(a) IN GENERAL.—Subparagraph (C) of section 168(e)(3) (relating to classification of certain property), as amended by section 304(a)(1), is amended by striking ''and'' at the end of clause (iii), by redesignating clause (iv) as clause (v), and by inserting after clause (iii) the following:

''(iv) any gas pipeline, and''.

(b) GAS PIPELINE.—Subsection (i) of section 168, as amended by section 304(b), is amended by adding at the end the following:

''(17) GAS PIPELINE.—The term 'gas pipeline' means the pipe, storage facilities, equipment, distribution infrastructure, and appurtenances used to deliver natural gas.''

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to property placed in service on or after the date of the enactment of this Act.

(2) ACCOUNTING RULE FOR PUBLIC UTILITY PROPERTY.—If any gas pipeline is public utility property (as defined in section 46(f)(5) of the Inter-

nal Revenue Code of 1986, as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990), the amendments made by this section shall only apply to such property if, with respect to such property, the taxpayer uses a normalization method of accounting.

SEC. 606. CRUDE OIL AND NATURAL GAS DEVELOPMENT CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 602(a), is amended by adding at the end the following:

"SEC. 45J. CRUDE OIL AND NATURAL GAS DEVELOPMENT CREDIT.

''(a) IN GENERAL.—For purposes of section 38, the crude oil and natural gas development credit determined under this section for any taxable year shall be an amount equal to the taxpayer's qualified investment for the taxable year.

''(b) REDUCTION AS OIL AND GAS PRICES INCREASE.—

''(1) IN GENERAL.—The amount which would (but for this subsection) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by an amount which bears the

same ratio to such amount (determined without regard to this subsection) as—

"(A) the excess (if any) of the applicable reference price over $11, bears to

"(B) $3.

The applicable reference price for a taxable year is the reference price of the calendar year preceding the calendar year in which the taxable year begins.

"(2) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2001, each of the dollar amounts contained in paragraph (1) shall be increased to an amount equal to such dollar amount multiplied by the inflation adjustment factor for such calendar year (determined under section 43(b)(3)(B) by substituting '2000' for '1990').

"(3) REFERENCE PRICE.—For purposes of this subsection, the term 'reference price' means, with respect to any calendar year, the reference price determined under section 29(d)(2)(C).

"(c) QUALIFIED INVESTMENT.—For purposes of this section, the term 'qualified investment' means amounts paid or incurred—

''(1) for the purpose of drilling and equipping crude oil and natural gas wells (including pollution control equipment used in connection with such wells), or

''(2) for the purpose of performing secondary or tertiary recovery techniques,

on properties located within the United States (as defined in section 638), but only to the extent that the expenditure is not taken into account for purposes of a credit under any other section.

''(d) SPECIAL RULES.—For purposes of this section—

''(1) AGGREGATION OF QUALIFIED INVESTMENT EXPENSES.—

''(A) CONTROLLED GROUPS; COMMON CONTROL.—In determining the amount of the credit under this section, all members of the same controlled group of corporations (within the meaning of section 52(a)) and all persons under common control (within the meaning of section 52(b)) shall be treated as a single taxpayer for purposes of this section.

''(B) APPORTIONMENT OF CREDIT.—The credit (if any) allowable by this section to members of any group (or to any person) described

in subparagraph (A) shall be such member's or person's proportionate share of the qualified investment expenses giving rise to the credit determined under regulations prescribed by the Secretary.

''(2) PARTNERSHIPS, S CORPORATIONS, ESTATES AND TRUSTS.—

''(A) PARTNERSHIPS AND S CORPORATIONS.—In the case of a partnership, the credit shall be allocated among partners under regulations prescribed by the Secretary. A similar rule shall apply in the case of an S corporation and its shareholders.

''(B) PASS-THRU IN THE CASE OF ESTATES AND TRUSTS.—Under regulations prescribed by the Secretary, rules similar to the rules of subsection (d) of section 52 shall apply.

''(3) ADJUSTMENTS FOR CERTAIN ACQUISITIONS AND DISPOSITIONS.—Under regulations prescribed by the Secretary, rules similar to the rules contained in section 41(f)(3) shall apply with respect to the acquisition or disposition of a taxpayer.

''(4) SHORT TAXABLE YEARS.—In the case of any short taxable year, qualified investment expenses shall be annualized in such circumstances and under

such methods as the Secretary may prescribe by regulation.

''(5) DENIAL OF DOUBLE BENEFIT.—

''(A) DISALLOWANCE OF DEDUCTION.—Any deduction allowable under this chapter for any costs taken into account in computing the amount of the credit determined under subsection (a) shall be reduced by the amount of such credit attributable to such costs.

''(B) BASIS ADJUSTMENTS.—For purposes of this subtitle, if a credit is determined under this section for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subsection) result from such expenditures shall be reduced by the amount of the credit so allowed.''.

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 602(b), is amended by striking ''plus'' at the end of paragraph (17), by striking the period at the end of paragraph (18) and inserting '', plus'', and by adding at the end the following:

''(19) the crude oil and natural gas development credit determined under section 45J(a).''.

(c) TRANSITIONAL RULE.—Section 39(d) (relating to transitional rules), as amended by section 402(c), is amended by adding at the end the following:

''(15) NO CARRYBACK OF SECTION 45J CREDIT BEFORE EFFECTIVE DATE.—No portion of the unused business credit for any taxable year which is attributable to the crude oil and natural gas development credit determined under section 48J may be carried back to a taxable year ending before January 1, 2002.''.

(d) CREDIT ALLOWED AGAINST REGULAR AND MINIMUM TAX.—

(1) IN GENERAL.—Subsection (c) of section 38 (relating to limitation based on amount of tax), as amended by section 602(c)(1), is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following:

''(5) SPECIAL RULES FOR CRUDE OIL AND NATURAL GAS DEVELOPMENT CREDIT.—

''(A) IN GENERAL.—In the case of the crude oil and natural gas development credit—

''(i) this section and section 39 shall be applied separately with respect to the credit, and

"(ii) in applying paragraph (1) to the credit—

"(I) subparagraphs (A) and (B) thereof shall not apply, and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the crude oil and natural gas development credit).

"(B) CRUDE OIL AND NATURAL GAS DEVELOPMENT CREDIT.—For purposes of this subsection, the term 'crude oil and natural gas development credit' means the credit allowable under subsection (a) by reason of section 45J(a).".

(2) CONFORMING AMENDMENTS.—Subclause (II) of section 38(c)(2)(A)(ii) and subclause (II) of section 38(c)(3)(A)(ii), as amended by section 602(c)(2), and subclause (II) of section 38(c)(4)(A)(ii), as added by section 602(c)(1), are each amended by inserting "or the crude oil and natural gas development credit" after "well production credit".

(e) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 602(f), is amended by adding at the end the following:

"Sec. 45J. Crude oil and natural gas development credit.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred in taxable years beginning after December 31, 2001.

SEC. 607. CREDIT FOR CAPTURE OF COALMINE METHANE GAS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 606(a), is amended by adding at the end the following:

"SEC. 45K. CAPTURE OF COALMINE METHANE GAS.

"(a) IN GENERAL.—For purposes of section 38, the coalmine methane gas capture credit of any taxpayer for any taxable year is $1.21 for 1,000,000 Btu of coalmine methane gas captured by the taxpayer and utilized as a fuel source or sold by or on behalf of the taxpayer to an unrelated person during such taxable year (within the meaning of section 45).

"(b) COALMINE METHANE GAS.—For purposes of this section, the term 'coalmine methane gas' means any methane gas which is being liberated, or would be liberated, during qualified coal mining operations or as a result

of past qualified coal mining operations, or which is extracted up to 10 years in advance of qualified coal mining operations as part of specific plan to mine a coal deposit.

''(c) SPECIAL RULE FOR ADVANCED EXTRACTION.—In the case of coalmine methane gas which is captured in advance of qualified coal mining operations, the credit under subsection (a) shall be allowed only after the date the coal extraction occurs in the immediate area where the coalmine methane gas was removed.

''(d) NONCOMPLIANCE WITH POLLUTION LAWS.—For purposes of subsections (b) and (c), coal mining operations which are not in compliance with the applicable State and Federal pollution prevention, control, and permit requirements for any period of time shall not be considered to be qualified coal mining operations during such period.

''(e) APPLICATION OF RULES.—For purposes of this section, rules similar to the rules of paragraphs (3), (4), and (5) of section 45(d) shall apply.''.

(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 606(b), is amended by striking ''plus'' at the end of paragraph (18), by striking the period at the end of paragraph (19) and inserting '', plus'', and by adding at the end the following:

''(20) the coalmine methane gas capture credit determined under section 45K(a).''.

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 606(c), is amended by adding at the end the following:

''Sec. 45K. Capture of coalmine methane gas.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to the capture of coalmine methane gas after the date of the enactment of this Act.

SEC. 608. ALLOCATION OF ALCOHOL FUELS CREDIT TO PATRONS OF A COOPERATIVE.

(a) IN GENERAL.—Section 40(d) (relating to alcohol used as fuel) is amended by adding at the end the following:

''(6) ALLOCATION OF SMALL ETHANOL PRODUCER CREDIT TO PATRONS OF COOPERATIVE.—

''(A) IN GENERAL.—In the case of a cooperative organization described in section 1381(a), any portion of the credit determined under subsection (a)(3) for the taxable year may, at the election of the organization made on a timely filed return (including extensions) for such year, be apportioned pro rata among patrons of the organization on the basis of the quantity or value of business done with or for such patrons for the taxable year. Such an elec-

tion, once made, shall be irrevocable for such taxable year.

''(B) TREATMENT OF ORGANIZATIONS AND PATRONS.—The amount of the credit apportioned to patrons pursuant to subparagraph (A)—

''(i) shall not be included in the amount determined under subsection (a) for the taxable year of the organization, and

''(ii) shall be included in the amount determined under subsection (a) for the taxable year of each patron in which the patronage dividend for the taxable year referred to in subparagraph (A) is includible in gross income.

''(C) SPECIAL RULE FOR DECREASING CREDIT FOR TAXABLE YEAR.—If the amount of the credit of a cooperative organization determined under subsection (a)(3) for a taxable year is less than the amount of such credit shown on the cooperative organization's return for such year, an amount equal to the excess of such reduction over the amount not apportioned to the patrons under subparagraph (A) for the

taxable year shall be treated as an increase in tax imposed by this chapter on the organization. Any such increase shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this subpart or subpart A, B, E, or G of this part.''.

(b) TECHNICAL AMENDMENT.—Section 1388 (relating to definitions and special rules for cooperative organizations) is amended by adding at the end the following:

''(k) CROSS REFERENCE.—For provisions relating to the apportionment of the alcohol fuels credit between cooperative organizations and their patrons, see section 40(d)(6).''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

SEC. 609. EXTENSION OF CREDIT FOR PRODUCING FUEL FROM A NONCONVENTIONAL SOURCE.

(a) INCLUSION OF ALASKA NATURAL GAS.—Section 29(c)(1) (defining qualified fuels) is amended by striking ''and'' at the end of subparagraph (B)(ii), by striking the period at the end of subparagraph (C) and inserting '', and'', and by adding at the end the following:

''(D) Alaska natural gas.''.

(b) DEFINITION.—Section 29(c) is amended by adding at the end the following:

''(4) ALASKA NATURAL GAS.—The term 'Alaska natural gas' means gas produced in compliance with the applicable State and Federal pollution prevention, control, and permit requirements from the area generally known as the North Slope of Alaska (including the continental shelf thereof within the meaning of section 638(1)), determined without regard to the area of the Alaska National Wildlife Refuge (including the continental shelf thereof within the meaning of section 638(1)).''.

(c) AMOUNT OF CREDIT.—

(1) IN GENERAL.—Section 29(a)(1) (relating to allowance of credit) is amended by inserting ''($1.45 in the case of a qualified fuel described in subsection (c)(1)(D))'' after ''$3''.

(2) CONFORMING AMENDMENTS.—

(A) Section 29(b)(2) is amended by striking ''The $3 amount'' and inserting ''The $3 and $1.45 amounts''.

(B) Section 29(d)(2)(B) is amended by inserting ''(calendar year 2001 in the case of the $1.45 amount in subsection (a)(1))'' after ''1979''.

(d) EXTENSION OF CREDIT.—Section 29(g) (relating to extension for certain facilities) is amended by adding at the end the following:

''(3) SPECIAL RULE FOR ALASKA NATURAL GAS WELLS.—In the case of a well for producing qualified fuel described in subsection (c)(1)(D)—

''(A) for purposes of subsection (f)(1)(A), such well shall be treated as being placed in service before January 1, 1993, if such well is placed in service before January 1, 2009, and

''(B) subsection (f)(2) shall be applied with respect to such well by substituting 'after December 31, 2001, and before January 1, 2009' for 'before January 1, 2003'.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2001.

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